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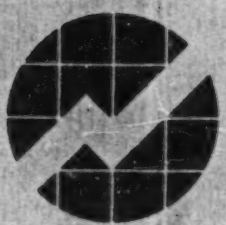
KEDI ECONOMIC SURVEY

AUGUST 1982 ISSUE



KENT ECONOMIC AND DEVELOPMENT INSTITUTE

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# KEDI ECONOMIC SURVEY

## AUGUST 1982 ISSUE

President: Dr. Vladimir J. Simunek

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This forecast uses the July, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the June 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

## 1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

### 1.01 EXECUTIVE SUMMARY

It will not be until the last months of the year that some sluggish growth will begin. Very gradual momentum will be gained next year. REAL GROWTH. Recent news is mostly of declines. Still, a flattening is in view. The second quarter gain in GNP was more a mirage than a reality. The second half of the year will post gains in the 3 per cent range over the year-earlier period. PRICES. The forecast is slightly increased with the change in the CPI for this year now seen as 6.6 per cent. Gas and heating oil prices have reached a plateau. EMPLOYMENT. A rare occurence: KEDI agrees with the Administration. High unemployment will be with us for a few more months. The jobless rate is forecast as edging down to 8.8 per cent in the fourth quarter. HOUSING. Starts were down in June, confirming what was discussed in the last issue here that the May gain was not the start of a trend. Existing home sales did pick up. New home sales are not seen as even going over 400,000 until 1984. AUTOMOBILES. The forecast for this year and next is the same with total car sales being off by about 7 per cent from the lousy levels of last year. GOVERNMENT BUDGETS. Washington is coming around to what has been forecast here for some time: deficits are increasing in their forecasts. KEDI maintains the fiscal '83 red ink in the $120 billion range. INCOME. Real personal per capita disposable income will not increase. More declines ahead through 1984. Mainly because of changes in anticipated profits in such areas as steel and oil, the forecast for corporate profits has been somewhat reduced. MONEY AND CREDIT. Events continue to confirm the forecast maintained

EXECUTIVE SUMMARY

here that the Fed would relax a bit. Loan demand will remain strong.

INTEREST RATES AND STOCK MARKET. Developments confirm forecasts made here--rates are moving down. The prime rate is forecast at close to 14 per cent by KEDI by the end of the year. No significant ups or downs of the stock market in 1983 are anticipated.

1.02 OVERVIEW

Recent data on the economy confirm what KEDI has been projecting since last year:

1. There will be some quite sluggish recovery inching toward improvement in the last months of this year. The Administration is finally getting closer to what has been predicted here for some time. Namely, this year will show an overall decline in GNP. First quarter negative moves will outweigh the slight improvement of the latter part of this year. KEDI and Administration forecasts for the last six months of this year are presented here as compared to the last part of 1981.

| | KEDI's Forecasts | | Administration's Forecasts | |
|---|---|---|---|---|
| | March '82 | July '82 | March '82 | July '82 |
| Real Growth, 2nd half of 1982 | 3% | 3% | 5% | 4-4.5% |

The report by the Council of Economic Advisers that went to Congress in February of this year pointed to the recession likely being over by the second quarter of 1982. In mid-July, comments from the White House pointed to added caution. References were made to the possibility of interest rates not going down much and the economy being less robust

OVERVIEW

than was foreseen earlier. The recovery that had been hoped for in Washington (but never forecast here as optimistically) is not coming into existence. This has been the first time since the recession began last August that officials have admitted to having to scale down their hopes.

2. Since last year, KEDI has been forecasting general downward moves in interest rates. Still, in relative terms, they will remain at historically high levels. Recent declines in interest rates confirm the calculations here. The forecast remains unchanged: small increments of descent from lofty heights will continue for interest rates. Federal Reserve chairman Paul Volcker confirmed the forecast maintained here that somewhat lowered inflation also points to lower interest rates to come as well.

3. The overview of this Institute's long-term projection is summarized.

| | Real Growth | Inflation | Unemployment | Interest Rates |
|---|---|---|---|---|
| Rest of 1982 | sluggish, in last months | below 7% | slight decline at the year-end | small declines |
| 1983 | slow growth | around 7% | slight decline | levelling |
| 1984 | more robust growth | around 8% | more decline | increases |
| 1985 | slowing down | above 8% | high level persists | return to 1983 levels |
| 1986 | resumption of growth | around 9% | decline | increases |

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes took place.

1. In 1986, all U.S. demand for oil should be met. In 1982, it is expected the weighted price of oil will be $33; in 1983 it will go up to $34 per barrel; in 1984, to $37 per barrel; in 1985, to $40 per barrel; and in 1986, to $42 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this year, and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In 1982, some relaxation, and in 1983-1984, tightening is assumed.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.

7. It is projected here that the averages rates of growth in 1982-1986 in the major industrial countries will be as follows for real GNP: West Germany 3.4%, Japan 3.6%, Italy 2.4%, Great Britain 2.1%, France 2.8%.

8. No drastic changes in existing international relationships are assumed in this forecast.

ASSUMPTIONS

The August 1982 KEDI forecast is highlighted in Table 1.0 KEDI FORECAST HIGHLIGHTS on page No. 6.

## 1.10 REAL GROWTH
(Table 1.10 on page 7)

News about developments--and the lack of them--in the economy are confirming the general forecast here that there is no immediate recovery. There is "ho-hum" growth coming in the last months of the year. News still reflects the accent on the negative and the only positive that can be surmized from it is the trend, although hardly heartening, will show some turn-around before the year is over.

Developments

1. The latest Harris survey showed that Americans are still pessimistic about the economy. Fifty-three per cent do not expect the economy to be growing at a good clip in a year. The proportion has remained about the same since last October. Concerning interest rates, 63 per cent do not expect them to sharply decline. The Conference Board's Consumer Confidence Index also edged down in June after small gains in the prior two months. Edward Yardeni of E.F. Hutton & Co. commented that the combination of high interest rates and slowing inflation will damping consumer spending. In his view, consumers are waiting for lower rates. They are not feeling a need now to buy in advance of inflation attacks. KEDI agrees with this view. Late this year consumer spending will perk up a bit.

2. Retail sales were down by 1.5 per cent in June. They had posted a 2.7 per cent gain in May, but that was a distorted month. Leaders of

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

| Indicator | Unit | 1981 | 1982 | 1985 | 1986 |
|---|---|---|---|---|---|
| Gross national product | bil. 1972$ | 1502.6 | 1480.2 | 1660.7 | 1732.1 |
| Index of industrial production | 1967= 100 | 151.0 | 142.2 | 170.2 | 177.1 |
| Capacity utilization | % | 78.5 | 70.9 | 79.4 | 80.3 |
| Unemployment rate | % | 7.6 | 9.1 | 7.4 | 7.0 |
| Private housing starts | % | 1.084 | 1.012 | 1.678 | 1.689 |
| Car sales | mil. | 8.6 | 7.8 | 9.2 | 9.4 |
| Implicit GNP price deflator | 1972= 100 | 195.5 | 208.0 | 255.6 | 274.0 |
| Consumer price index | 1967= 100 | 272.4 | 290.4 | 361.6 | 391.6 |
| Producer price index* | 1967= 100 | 269.7 | 280.6 | 362.4 | 391.5 |
| Federal deficit | bil.$ | -60.0 | -127.8 | -58.2 | -41.3 |
| Personal income | bil.$ | 2510.5 | 2555.3 | 3224.6 | 3489.0 |
| Prime rate | % | 18.87 | 15.60 | 12.32 | 13.59 |
| Mortgage rate | % | 16.52 | 16.50 | 12.32 | 13.59 |
| Currency plus demand deposits | bil.$ | 427.1 | 457.0 | 537.7 | 572.1 |
| Commercial and industrial loans | bil.$ | 360.6 | 389.6 | 482.9 | 521.0 |

* Finished goods

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 1982 2 | 1982 3 | 1982 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product,1972$ | bil. 1972 $ | 1502.6 | 1470.7 | 1476.8 | 1482.5 | 1490.8 | 1480.2 | -1.5 |
| Index of industrial product. | 1967=100 | 151.0 | 141.8 | 139.4 | 142.1 | 145.6 | 142.2 | -5.8 |
| Unemployment rate | % | 7.6 | 8.8 | 9.5 | 9.2 | 8.8 | 9.1 | 19.0 |
| Capacity utilization rate | % | 78.5 | 71.7 | 70.1 | 70.3 | 71.4 | 70.9 | -9.7 |
| Private housing starts | mil. units | 1.084 | .919 | .958 | 1.080 | 1.088 | 1.012 | -6.4 |
| Car sales | mil. units | 8.6 | 8.3 | 7.5 | 7.7 | 7.8 | 7.8 | -9.3 |

| Indicator | Unit | 1982 | 1983 1 | 1983 2 | 1983 3 | 1983 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product,1972$ | bil. 1972 $ | 1480.2 | 1506.4 | 1520.6 | 1534.8 | 1552.7 | 1528.6 | 3.2 |
| Index of industrial product. | 1967=100 | 142.2 | 148.7 | 151.3 | 154.9 | 157.3 | 153.1 | 7.7 |
| Unemployment rate | % | 9.1 | 8.6 | 8.3 | 7.9 | 7.8 | 8.2 | -10.0 |
| Capacity utilization rate | % | 70.9 | 72.4 | 74.5 | 75.3 | 75.7 | 74.5 | 5.1 |
| Private housing starts | mil. units | 1.012 | 1.157 | 1.436 | 1.532 | 1.528 | 1.413 | 39.6 |
| Car sales | mil. units | 7.8 | 8.0 | 7.8 | 8.1 | 8.0 | 8.0 | 2.6 |

| Indicator | Unit | 1983 | 1984 1 | 1984 2 | 1984 3 | 1984 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product,1972$ | bil. 1972 $ | 1528.6 | 1569.4 | 1584.3 | 1604.7 | 1622.9 | 1595.3 | 4.4 |
| Index of industrial product. | 1967=100 | 153.1 | 160.4 | 163.2 | 166.5 | 167.7 | 164.5 | 5.7 |
| Unemployment rate | % | 8.2 | 7.6 | 7.5 | 7.2 | 7.2 | 7.4 | -9.2 |
| Capacity utilization rate | % | 74.5 | 77.1 | 78.3 | 79.1 | 79.6 | 78.5 | 5.4 |
| Private housing starts | mil. units | 1.413 | 1.527 | 1.554 | 1.618 | 1.581 | 1.570 | 11.1 |
| Car sales | mil. units | 8.0 | 8.6 | 8.7 | 9.0 | 9.1 | 8.9 | 11.3 |

REAL GROWTH

lareg retail chains commented that the first hint of recovery may be a slight one in the back-to-school season. An analyst at Merrill Lynch, Pierce, Fenner & Smith referred to an expected recovery led by consumers that will come in the second half. However, it may be later in that time period rather than earlier. KEDI agrees.

3. Machine tool orders were 60 per cent lower this June than last. However, they were 21 per cent above the May level.

4. Housing starts dipped back down again in June after having been held up by government contributions to multi-family homes in May. In both May and June sales of homes increased--there was hardly any other direction to go. The sales of single-family homes rose roughly 13 per cent in May, but that was still 19 per cent lower than the year-earlier level. Resales of single-family homes edged up in June. Such sales were, however, about 27 per cent lower this June than last.

5. Automakers reported that sales in mid-July were off by almost 18 per cent.

6. Coal demand is flattening. Producers do not see the boom there that they used to see. Industry forecast have been lowered there.

7. The pessimism in the steel industry persists. The chairman of U.S. Steel said no relief is in sight, but the long-term outlook is better. New orders have been on the light side this summer. Inventory liquidations continue while some firms take extra-long vacation schedules. (Those inventories will have to be built up sometime in the not-so-far away future, and that will add a spark to the weary industry.)

8. In late July, spending figures for construction were released for the month of May. Here there was a bit of gain.

REAL GROWTH

9. There was some gain in GNP in the second quarter but it was more of an illusion than anything of substance. The 1.7 per cent annual rate increase was mostly due to the slowdown in inventories declines and the buildup of stocks of unsold cars. Capital spending (the basis of long-term expension) showed a decline. By this measure, recovery is not yet in sight.

The substance of developments this July has shown more negative news than positive without doubt. Still, putting that in the perspective of what has occurred this year and looking at the forecast data provides the view that has been maintained for many months--rigorless recovery toward the end of the year and gaining momentum next year. Second half gains are still projected in the 3 per cent area.

## 1.20 PRICES

(Table 1.20 on page 10)

KEDI's forecast is increased:

| | July Forecast | August Forecast |
|---|---|---|
| Consumer Price Index for 1982 over 1981 | +6% | +6.6% |

The basic reason for the change is that KEDI has increased the projected data for gasoline and heating oil, and meat for 1982. This Institute expects: (a) Prices of gasoline and heating oil reached the plateau in July and will not be increasing significantly throughout the rest of the year. Slow, constant increases are expected in 1983. (b) Meat prices will continue to climb till the end of this year and

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 1982 2 | 1982 3 | 1982 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Consumer price index, n.s.a. | 1967=100 | 272.4 | 283.6 | 287.3 | 292.6 | 297.9 | 290.4 | 6.6 |
| Producer price index, n.s.a.** | 1967=100 | 269.7 | 277.2 | 278.2 | 281.2 | 285.6 | 280.6 | 4.0 |
| Implicit GNP price deflator | 1972=100 | 195.5 | 203.6 | 206.3 | 209.0 | 212.9 | 208.0 | 6.4 |
| Gross national product | bil.$ | 2937.7 | 2995.5 | 3047.4 | 3099.0 | 3174.2 | 3079.0 | 4.8 |
| Personal consump.expend. | bil.$ | 1843.2 | 1919.4 | 1950.8 | 1985.2 | 2014.3 | 1967.4 | 6.7 |
| Gross private dom.investment | bil.$ | 471.5 | 414.8 | 448.8 | 462.4 | 478.9 | 451.2 | -4.4 |

| Indicator | Unit | 1982 | 1983 1 | 1983 2 | 1983 3 | 1983 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Consumer price index, n.s.a. | 1967=100 | 290.4 | 302.0 | 307.4 | 313.8 | 318.2 | 310.4 | 6.8 |
| Producer price index, n.s.a.** | 1967=100 | 280.6 | 291.0 | 298.6 | 305.3 | 309.7 | 301.2 | 7.3 |
| Implicit GNP price deflator | 1972=100 | 208.0 | 215.6 | 219.2 | 223.1 | 227.2 | 221.3 | 6.4 |
| Gross national product | bil.$ | 3079.0 | 3248.1 | 3332.9 | 3424.4 | 3528.4 | 3383.4 | 9.9 |
| Personal consump.expend. | bil.$ | 1967.4 | 2056.2 | 2114.8 | 2192.6 | 2250.4 | 2153.5 | 9.5 |
| Gross private dom.investment | bil.$ | 451.2 | 487.4 | 499.6 | 511.3 | 519.7 | 504.5 | 11.8 |

| Indicator | Unit | 1983 | 1984 1 | 1984 2 | 1984 3 | 1984 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Consumer price index, n.s.a. | 1967=100 | 310.4 | 323.7 | 330.4 | 338.8 | 345.4 | 334.5 | 7.8 |
| Producer price index, n.s.a.** | 1967=100 | 301.2 | 313.4 | 321.3 | 330.8 | 342.6 | 327.0 | 8.5 |
| Implicit GNP price deflator | 1972=100 | 221.3 | 232.4 | 236.3 | 241.5 | 245.3 | 238.9 | 8.0 |
| Gross national product | bil.$ | 3383.4 | 3647.1 | 3743.9 | 3875.5 | 3981.3 | 3811.9 | 12.7 |
| Personal consump.expend. | bil.$ | 2153.5 | 2330.4 | 2386.7 | 2452.3 | 2504.8 | 2418.4 | 12.3 |
| Gross private dom.investment | bil.$ | 504.5 | 530.2 | 554.3 | 573.1 | 590.2 | 562.0 | 11.3 |

PRICES

level in 1983. (c) Constant gains in medical-care costs are projected for the rest of 1982, and for 1983-1986. (d) Other leaders in price increases in the 1982-1983 period are transportation and entertainment. (e) KEDI's projection for prices of vegetables, fruit, cereals, and other grain products, and for apparel, shoes, and appliances shows only slight rises in 1982-1983.

Producer Prices: KEDI's projection for price increases of metals, raw materials, and other basic commodities shows that these are bottoming out. However, more significant increases in prices of basic commodities are not expected before 1983.

## 1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 12)

The forecast for unemployment rates remains essentially unchanged. KEDI expects that the summer unemployment rates represent the peak. In the Fall, a slowly declining trend will begin.

The decline will be slow because: (1) In KEDI's projection, factory orders will be picking up more significantly in the fourth quarter of 1982. Hence, higher employment must wait until the orders will go up. (2) KEDI also predicts that consumers' demand will not rise more significantly before late this year.

This Institute agrees with the view of the Administration in this particular area. That is, there is agreement that high rates of joblessness will be here for a few more months at least. Chase Econometrics forecasts the unemployment rate at about 9.6 per cent in the

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Population | mil. | 225.9 | 228.0 | 229.2 | 230.4 | 231.4 | 229.6 | 1.6 |
| Civilian labor force | mil. | 108.7 | 109.1 | 110.2 | 110.9 | 111.8 | 110.5 | 1.7 |
| Employment | mil. | 100.5 | 99.6 | 99.7 | 100.7 | 101.9 | 100.5 | .1 |
| Agriculture | mil. | 3.4 | 3.4 | 3.4 | 3.3 | 3.3 | 3.4 | .0 |
| Non agricult. | mil. | 97.1 | 96.2 | 96.3 | 97.4 | 98.6 | 97.1 | .0 |
| Unemployment rate | % | 7.62 | 8.77 | 9.46 | 9.23 | 8.84 | 9.07 | 19.0 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Population | mil. | 229.6 | 231.5 | 232.2 | 232.9 | 233.4 | 232.5 | 1.3 |
| Civilian labor force | mil. | 110.5 | 112.6 | 113.8 | 114.9 | 115.8 | 114.3 | 3.3 |
| Employment | mil. | 100.5 | 102.8 | 104.4 | 105.8 | 106.7 | 104.9 | 4.4 |
| Agriculture | mil. | 3.4 | 3.3 | 3.4 | 3.3 | 3.4 | 3.4 | .0 |
| Non agricult. | mil. | 97.1 | 99.5 | 101.0 | 102.5 | 103.3 | 101.5 | 4.5 |
| Unemployment rate | % | 9.07 | 8.62 | 8.25 | 7.90 | 7.81 | 8.15 | -10.0 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Population | mil. | 232.5 | 234.5 | 235.2 | 236.0 | 236.9 | 235.7 | 1.4 |
| Civilian labor force | mil. | 114.3 | 117.0 | 117.9 | 118.8 | 120.1 | 118.5 | 3.7 |
| Employment | mil. | 104.9 | 108.0 | 109.0 | 110.2 | 111.5 | 109.7 | 4.6 |
| Agriculture | mil. | 3.4 | 3.3 | 3.3 | 3.4 | 3.4 | 3.4 | .0 |
| Non agricult. | mil. | 101.5 | 104.7 | 105.7 | 106.8 | 108.1 | 106.3 | 4.7 |
| Unemployment rate | % | 8.15 | 7.64 | 7.52 | 7.23 | 7.19 | 7.46 | -9.2 |

EMPLOYMENT AND LABOR

present quarter. KEDI agrees. However, by the end of this year, the rate is seen as 8.8 per cent whereas Chase has a more optimistic figure of 8.5 for the last quarter.

There is some good news in that the average weekly hours worked were the same in June as in May--39.1 hours. Average factory overtime went up a tad to 2.4 from 2.3 hours between May and June. KEDI's projection in these two areas is presented.

| Year/Quarter | Average weekly hours in manufacturing | Average factory overtime |
|---|---|---|
| 1982:2 | 39.2 | 2.3 |
| 1982:3 | 39.3 | 2.4 |
| 1982:4 | 39.3 | 2.5 |
| 1983:1 | 39.5 | 2.4 |
| 1983:2 | 39.8 | 2.5 |

## 1.41 HOUSING

(Table 1.41 on page 14)

Housing starts declined in June when compared with May housing starts. It demonstrates that the May increase was only temporary as KEDI outlined in the last issue. KEDI's projection for housing starts remains basically unchanged. Forecast data for years 1984 - 1986 have been slightly reduced.

Some better news. Sales of existing homes were up 2.6 per cent in June from May. However, they were off 27.2 per cent from June 1981. Sales of new homes were also up a bit. June sales of new homes gained 4.3 per cent below June 1981. KEDI's forecast remains far from

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Single-family housing starts | mil. | .706 | .586 | .603 | .652 | .641 | .621 | -12.0 |
| Multifamily housing starts | mil. | .379 | .333 | .355 | .428 | .447 | .391 | 3.2 |
| Mobile home shipments | mil. | .241 | .238 | .251 | .265 | .274 | .257 | 6.7 |
| Permits authorized | mil. | .969 | .832 | .924 | .067 | 1.006 | .932 | -3.8 |
| 1-family unit** price, new | tho.$ | 83.1 | 82.0 | 84.8 | 85.9 | 87.3 | 85.0 | 2.3 |
| 1-family unit** price,existing | tho.$ | 78.0 | 79.3 | 80.9 | 81.7 | 83.1 | 81.1 | 3.4 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Single-family housing starts | mil. | .621 | .694 | .852 | .873 | .885 | .826 | 33.0 |
| Multifamily housing starts | mil. | .391 | .463 | .584 | .659 | .643 | .587 | 50.1 |
| Mobile home shipments | mil. | .257 | .295 | .309 | .342 | .358 | .326 | 26.9 |
| Permits authorized | mil. | .932 | 1.084 | 1.235 | 1.386 | 1.362 | 1.267 | 35.9 |
| 1-family unit** price, new | tho.$ | 85.0 | 88.6 | 89.2 | 90.6 | 91.8 | 90.1 | 6.0 |
| 1-family unit** price,existing | tho.$ | 81.1 | 83.4 | 85.1 | 85.7 | 87.2 | 85.4 | 5.3 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Single-family housing starts | mil. | .826 | .843 | .859 | .935 | .919 | .889 | 4.3 |
| Multifamily housing starts | mil. | .587 | .684 | .695 | .683 | .662 | .681 | 6.9 |
| Mobile home shipments | mil. | .326 | .324 | .342 | .365 | .348 | .344 | 5.5 |
| Permits authorized | mil. | 1.267 | 1.305 | 1.427 | 1.496 | 1.509 | 1.434 | 13.1 |
| 1-family unit** price, new | tho.$ | 90.1 | 93.4 | 95.2 | 96.7 | 98.9 | 96.1 | 6.7 |
| 1-family unit** price,existing | tho.$ | 85.4 | 88.3 | 89.4 | 91.3 | 93.4 | 90.6 | 6.1 |

HOUSING

optimistic in the near future.

Sales of Single-family Homes
(Thousand units, seasonally adjusted)

| | New | Existing |
|---|---|---|
| 1982 | 387 | 1972 |
| 1983 | 396 | 2034 |
| 1984 | 412 | 2251 |
| 1985 | 398 | 2024 |
| 1986 | 439 | 2307 |

As mentioned in Section 1.70, housing won't pick up much until mortgage rates receed significantly. In KEDI's forecast that will happen not earlier than in 1985.

## 1.42 AUTOMOBILES

(Table 1.42 on page 16)

The forecast for this year and next remains essentially unchanged as the June and July downturns in car sales were anticipated here. (See Table 1.42) The projection for 1984 through 1986 has been reduced slightly.

The projection here for auto sales for the rest of the year is pessimistic. The third quarter will barely show any pick up. Some small gains will occur in the last quarter of this year. At that time, it is anticipated that interest rates will be a bit lower and automakers will launch new incentive programs.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 1982 2 | 1982 3 | 1982 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Passenger cars | | | | | | | | |
| Total sales | mil. | 8.6 | 8.3 | 7.5 | 7.7 | 7.8 | 7.8 | -9.3 |
| Domestic | mil. | 6.3 | 6.0 | 5.5 | 5.9 | 6.0 | 5.8 | -8.0 |
| Imported | mil. | 2.3 | 2.3 | 2.0 | 1.8 | 1.8 | 2.0 | -13.0 |
| Dealers inventories** | mil. | 1.5 | 1.1 | 1.2 | 1.3 | 1.6 | 1.3 | -13.3 |
| Factory shipments** | mil. | 6.3 | 4.1 | 4.9 | 5.0 | 5.8 | 5.0 | -20.6 |
| Light-duty truck sales | mil. | 1.6 | 1.9 | 1.7 | 1.7 | 1.8 | 1.8 | 12.5 |

| Indicator | Unit | 1982 | 1983 1 | 1983 2 | 1983 3 | 1983 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Passenger cars | | | | | | | | |
| Total sales | mil. | 7.8 | 8.0 | 7.8 | 8.1 | 8.0 | 8.0 | 2.6 |
| Domestic | mil. | 5.8 | 6.2 | 6.0 | 6.2 | 6.3 | 6.2 | 6.9 |
| Imported | mil. | 2.0 | 1.8 | 1.8 | 1.9 | 1.7 | 1.8 | -10.0 |
| Dealers inventories** | mil. | 1.3 | 1.6 | 1.4 | 1.4 | 1.5 | 1.5 | 15.4 |
| Factory shipments** | mil. | 5.0 | 5.9 | 6.0 | 5.4 | 6.4 | 5.9 | 18.0 |
| Light-duty truck sales | mil. | 1.8 | 1.7 | 1.9 | 2.1 | 1.9 | 1.9 | 5.6 |

| Indicator | Unit | 1983 | 1984 1 | 1984 2 | 1984 3 | 1984 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Passenger cars | | | | | | | | |
| Total sales | mil. | 8.0 | 8.6 | 8.7 | 9.0 | 9.1 | 8.9 | 11.3 |
| Domestic | mil. | 6.2 | 6.8 | 6.8 | 7.2 | 7.2 | 7.0 | 12.9 |
| Imported | mil. | 1.8 | 1.8 | 1.9 | 1.8 | 1.9 | 1.9 | 5.6 |
| Dealers inventories** | mil. | 1.5 | 1.4 | 1.5 | 1.4 | 1.5 | 1.5 | .0 |
| Factory shipments** | mil. | 5.9 | 6.7 | 6.7 | 6.8 | 7.3 | 6.9 | 16.9 |
| Light-duty truck sales | mil. | 1.9 | 2.0 | 2.1 | 2.2 | 2.3 | 2.2 | 15.8 |

*Historical data (1) % change over previous year **Seas. not adjusted

AUTOMOBILES

Auto Crisis

Mid-July auto sales were off by 17.9 per cent and reached the lowest level of the past 24 years. So far this year, U.S. automakers total deliveries were off by 11.8 per cent from the depressed levels in the same period a year ago. KEDI expects that automakers will significantly reduce their production plans for the third and fourth quarters of this year.

A study by the National Academy of Engineers found fault with management of the auto industry and pointed to the need for vast changes. Due to lower labor costs and higher productivity, the cost of producing a Japanese car is $750-1,500 lower than that of a U.S. auto, so Japanese cars sold here have higher profit margins. One future possibility the Academy outlined was U.S. companies moving much of their production abroad.

1.50 BUDGETS

(Table 1.50 on page 18)

In the previous issue, KEDI anticipated the deficit of the federal budget for fiscal 1983 in the amount of $120 billion as opposed to the adopted proposal of 107 9. Now the Administration is moving closer to the figures that have been used here. In late July the Treasury Secretary moved the deficit estimate up to the $110-114 area--billions, of course. The director of the Congressional Budget Office

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Federal govt.: | | | | | | | | |
| Income taxes | bil.$ | 298.1 | 299.9 | 302.4 | 277.2 | 282.4 | 290.5 | -2.5 |
| Corporate prof. tax accruals | bil.$ | 67.3 | 45.6 | 43.2 | 44.4 | 50.1 | 45.8 | -31.9 |
| Surplus/deficit | bil.$ | -60.0 | -119.3 | -126.5 | -145.6 | -119.9 | -127.8 | 213.0 |
| State and local governments: | | | | | | | | |
| Income taxes | bil.$ | 88.6 | 93.6 | 95.1 | 97.3 | 99.6 | 96.4 | 8.8 |
| Corporate prof. tax accruals | bil.$ | 10.1 | 10.1 | 9.2 | 9.4 | 9.6 | 9.6 | -5.0 |
| Surplus/deficit | bil.$ | 31.7 | 27.7 | 28.5 | 29.4 | 29.1 | 28.7 | -9.5 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Federal govt.: | | | | | | | | |
| Income taxes | bil.$ | 290.5 | 303.5 | 305.9 | 277.4 | 290.5 | 294.3 | 1.3 |
| Corporate prof. tax accruals | bil.$ | 45.8 | 55.3 | 60.8 | 65.8 | 70.4 | 63.1 | 37.7 |
| Surplus/deficit | bil.$ | -127.8 | -104.3 | --92.6 | -117.3 | -104.6 | -104.7 | -18.1 |
| State and local governments: | | | | | | | | |
| Income taxes | bil.$ | 96.4 | 104.1 | 107.6 | 108.5 | 109.8 | 108.0 | 12.3 |
| Corporate prof. tax accruals | bil.$ | 9.6 | 10.4 | 11.5 | 12.7 | 14.1 | 12.2 | 27.0 |
| Surplus/deficit | bil.$ | 28.7 | 29.0 | 29.4 | 29.8 | 30.1 | 29.6 | 3.1 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Federal govt.: | | | | | | | | |
| Income taxes | bil.$ | 294.3 | 305.6 | 315.8 | 332.6 | 346.7 | 325.1 | 10.5 |
| Corporate prof. tax accruals | bil.$ | 63.1 | 74.3 | 78.7 | 84.7 | 87.3 | 81.3 | 28.8 |
| Surplus/deficit | bil.$ | -104.7 | -99.2 | -93.5 | -88.4 | -81.5 | -90.7 | -13.4 |
| State and local governments: | | | | | | | | |
| Income taxes | bil.$ | 108.0 | 113.2 | 115.4 | 118.3 | 120.1 | 116.8 | 8.1 |
| Corporate prof. tax accruals | bil.$ | 12.2 | 15.4 | 15.5 | 16.1 | 17.9 | 16.2 | 32.8 |
| Surplus/deficit | bil.$ | 29.6 | 31.4 | 31.8 | 32.4 | 33.0 | 32.2 | 8.7 |

*Historical data (1) % change over previous year

BUDGETS

predicted a flood of red ink of $140-160 billion annually for the next three years. That is seen here, as just too big. Things are not that bad.

Taxes. The Senate approved a $99 billion increase in taxes spread over three years and spending cuts of about $17.5 billion. It is too early to predict the outcome in the House and in the final figures. Last year, in the autumn, KEDI built into its forecast a $20-30 billion a year increase in taxation which would mainly come from business and indirect taxes. That upper limit approaches over $90 billion for three fiscal years which is within the ballpark of the amount approved by the Senate. CONSEQUENTLY, if the Senate version is adopted, it will have no ESSENTIAL EFFECTS on projections here.

The fiscal year deficits projected here remain the same:(in $ billions)

| | |
|---|---|
| 1983 | 120 |
| 1984 | 108 |
| 1985 | 78 |
| 1986 | 54 |

The Administration, in its recent projection, is coming closer to KEDI's figures. Now, it projects: $95 billion deficit in fiscal 1984, and $74 billion deficit in fiscal 1985.

The projected trends in state and local budgets remain essentially unchanged when compared with the previous forecast. Actual and forecast data have been adjusted to correspond with the July 20, 1982 Department of Commerce benchmark revision of National Income and Product data.

## 1.60 INCOME

(Table 1.60 on page 21)

The forecast and historical data on Income and components in Table 1.60 on the following page reflect the recent benchmark revision of National Income and Product Data by the Department of Commerce. The main revisions concern the following:

In billions $

| | Old data for 1981 | New data for 1981 |
|---|---|---|
| Personal Income | 2404.1 | 2415.7 |
| Personal Disposable Income | 2016.0 | 2029.1 |
| Corporate After Tax Profits | 155.5 | 150.9 |
| Personal Saving | 107.6 | 130.2 |

This forecast, based on the new, revised data does not show significant differences in growth rates when compared with the previous July forecast for Personal Income and components.

There is a slight difference in corporate profits. Their projection has been revised downwards mainly due to the downward revision of expected profits in steel, oil, paper, and chemicals industries.

Calculations show that personal per capita real disposable income will decline in 1982, 1983, and 1984. The first increases are expected to take place not earlier than in 1985. (At least declines will cease around that time.)

Average weekly earnings of production workers in manufacturing have been revised upwards for 1982 and 1983. However, more significant wage increases are expected not earlier than in 1984.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Personal income | bil.$ | 2415.8 | 2510.5 | 2549.5 | 2562.1 | 2588.4 | 2555.3 | 5.8 |
| Personal disposable income | bil.$ | 2029.1 | 2117.1 | 2151.9 | 2187.6 | 2206.4 | 2165.8 | 6.7 |
| Compensation of employees | bil.$ | 1767.6 | 1819.9 | 1830.8 | 1865.4 | 1918.2 | 1856.8 | 5.0 |
| Corporate after tax profits | bil.$ | 150.9 | 115.9 | 116.2 | 121.1 | 130.4 | 121.0 | -19.8 |
| Personal saving | bil.$ | 130.2 | 139.1 | 142.0 | 162.4 | 154.3 | 149.5 | 14.8 |
| Average weekly earnings | $ | 316.8 | 320.5 | 326.5 | 335.6 | 339.2 | 330.5 | 4.3 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Personal income | bil.$ | 2555.3 | 2617.5 | 2679.5 | 2758.4 | 2819.5 | 2718.7 | 6.4 |
| Personal disposable income | bil.$ | 2165.8 | 2209.9 | 2266.0 | 2372.5 | 2419.2 | 2316.9 | 7.0 |
| Compensation of employees | bil.$ | 1856.8 | 1941.3 | 1985.2 | 2013.9 | 2046.5 | 1996.7 | 7.5 |
| Corporate after tax profits | bil.$ | 121.0 | 135.7 | 143.6 | 154.7 | 160.2 | 148.6 | 22.8 |
| Personal saving | bil.$ | 149.5 | 150.1 | 143.2 | 162.1 | 156.6 | 153.0 | 2.3 |
| Average weekly earnings | $ | 330.5 | 344.9 | 350.1 | 356.4 | 361.4 | 353.2 | 6.9 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Personal income | bil.$ | 2718.7 | 2858.4 | 2963.3 | 3037.2 | 3128.5 | 2996.8 | 10.2 |
| Personal disposable income | bil.$ | 2316.9 | 2439.6 | 2532.0 | 2586.3 | 2661.7 | 2554.9 | 10.2 |
| Compensation of employees | bil.$ | 1996.7 | 2086.3 | 2156.2 | 2230.4 | 2283.2 | 2189.0 | 9.6 |
| Corporate after tax profits | bil.$ | 148.6 | 163.4 | 167.5 | 172.3 | 176.7 | 170.0 | 14.4 |
| Personal saving | bil.$ | 153.0 | 158.2 | 164.3 | 163.1 | 164.5 | 162.5 | 6.2 |
| Average weekly earnings | $ | 353.2 | 370.2 | 376.0 | 381.4 | 384.6 | 378.1 | 7.0 |

## 1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

Since 1980, KEDI has advocated and assumed some relaxation of the Fed's monetary and credit policies and declines in interest rates that would accompany such relaxation. (See Assumption No.3.) Recent events continue to confirm the projections that have been maintained here.

Federal Reserve Chairman Paul Volcker lowered the discount rate. He also indicated that money growth at the top of the target range and even somewhat above would be tolerated temporarily if the economy needs it.

The Federal Reserve has eased in its policy. The June drop in M1 gave them justification to relax the credit grip. KEDI maintains the view that Fed policy will continue to ease this year and will tighten again in 1983.

Fed figures on business loan demand showed it remained strong. Commercial and industrial loans on bank books went up to a record $208 billion at the end of June. KEDI's forecast for such loans remains the same. The projection here shows that demand for loans by businesses will remain strong and will go up an average of 8.0 per cent this year, 7.9 in 1983 and 7.3 per cent in 1984.

Consumer credit will continue to increase significantly. Recent data confirm that view. Such credit increased by $1.4 billion in May. Net credit rose by 1.8 per cent.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and large denomination time deposits" are averages of daily figures; other data are end of period figures)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Currency and demand deposits,M1 | bil.$ | 427.1 | 448.0 | 453.7 | 459.4 | 466.7 | 457.0 | 7.0 |
| Time deposits, adjusted,M2 | bil.$ | 1723.4 | 1851.1 | 1872.3 | 1881.6 | 1886.8 | 1873.0 | 8.6 |
| Consumer instal. credit | bil.$ | 333.4 | 327.1 | 336.2 | 344.3 | 349.7 | 349.7 | 4.9 |
| Commerc.& indus. loans at banks | bil.$ | 360.6 | 371.9 | 377.2 | 382.3 | 389.6 | 389.6 | 8.0 |
| Large denomination time dep. | bil.$ | 305.5 | 317.1 | 324.3 | 331.2 | 334.7 | 334.7 | 9.6 |
| Mortgages at S & L Assns. | bil.$ | 518.4 | 515.1 | 517.2 | 520.1 | 527.4 | 527.4 | 1.7 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Currency and demand deposits,M1 | bil.$ | 457.0 | 474.3 | 480.2 | 485.6 | 489.2 | 482.3 | 5.5 |
| Time deposits, adjusted, M2 | bil.$ | 1873.0 | 1926.7 | 1959.4 | 1994.8 | 2027.8 | 1977.2 | 5.6 |
| Consumer instal. credit | bil.$ | 349.7 | 355.4 | 360.3 | 366.5 | 374.2 | 374.2 | 7.0 |
| Commerc.& indus. loans at banks | bil.$ | 389.6 | 396.9 | 405.7 | 414.6 | 420.4 | 420.4 | 7.9 |
| Large denomination time dep. | bil.$ | 334.7 | 338.5 | 342.9 | 351.6 | 360.8 | 360.8 | 7.8 |
| Mortgages at S & L Assns. | bil.$ | 527.4 | 531.1 | 537.0 | 547.2 | 553.9 | 553.9 | 5.0 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Currency and demand deposits,M1 | bil.$ | 482.3 | 494.5 | 504.3 | 511.7 | 520.7 | 507.8 | 5.3 |
| Time deposits, adjusted,M2 | bil.$ | 1977.2 | 2061.7 | 2110.4 | 2165.7 | 2219.3 | 2139.3 | 8.2 |
| Consumer instal. credit | bil.$ | 374.2 | 380.1 | 384.3 | 392.8 | 400.1 | 400.1 | 6.9 |
| Commerc.& indus. loans at banks | bil.$ | 420.4 | 427.3 | 343.7 | 444.5 | 450.9 | 450.9 | 7.2 |
| Large denomination time dep. | bil $ | 360.8 | 363.5 | 371.7 | 381.8 | 389.2 | 389.2 | 7.9 |
| Mortgages at S & L Assns. | bil.$ | 553.9 | 562.1 | 569.9 | 580.3 | 589.1 | 589.1 | 6.4 |

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

The assumption of gradual declines in interest rates is again being confirmed. In late July two leading banks dropped their prime lending rates to 15.5 per cent.That is the lowest rate in twenty months. KEDI expects further declines in the near future.

The chairman of the Bank of America, Leland Prussia indicated that other banks would follow the move to 15.5.According to his view the rate could be in the 11 or 12 per cent area by the end of this year. KEDI does not have quite that cheerful a view. Norman Robertson of Pittsburgh's Mellon Bank sees that rate might be in the 14.5 per cent range by early fall. This Institute expects the rate to be closer to 14 per cent by the end of this year.

The opinion of a spokesman for the National Association of Realtors is shared here. Housing will not recover and the consumer will not get into the housing market much until the mortgage rate is in the 12 or 13 per cent range. However, such a level is not seen in the near future by KEDI.

The forecast of the stock market remains about the same. No significant ups or downs are anticipated in the 1982-84 period. The Dow Jones Industrials will be in the 800-830 range during the rest of this year and in the 850-870 area next year. Standard & Poor's will be in the 122-126 range during the remainder of 1982 and in the 124-128 area in 1983.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

| Indicator | Unit | 1981* | 1982 1 | 1982 2 | 1982 3 | 1982 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Treasury bills (3 mo) yield | % | 14.03 | 12.81 | 12.48 | 12.36 | 12.20 | 12.46 | -11.1 |
| Prime rate | % | 18.87 | 16.27 | 16.50 | 15.27 | 14.36 | 15.60 | -17.3 |
| Conventional mortgages rate | % | 16.52 | 17.10 | 16.54 | 16.29 | 16.10 | 16.50 | -.1 |
| Aaa corporate bonds rate | % | 14.17 | 15.01 | 14.27 | 13.94 | 13.69 | 14.23 | .4 |
| 20 years Govt. bonds yield | % | 13.72 | 14.27 | 13.72 | 13.75 | 13.91 | 13.91 | 1.4 |
| Standard & Poor's 500 avg. | 1941-43=100 | 128.05 | 114.25 | 118.14 | 122.65 | 124.14 | 119.80 | -6.4 |

| Indicator | Unit | 1982 | 1983 1 | 1983 2 | 1983 3 | 1983 4 | 1983 | % (1 |
|---|---|---|---|---|---|---|---|---|
| Treasury bills (3 mo) yield | % | 12.46 | 12.27 | 12.69 | 13.04 | 12.72 | 12.68 | 1.8 |
| Prime rate | % | 15.60 | 14.09 | 14.14 | 14.21 | 14.08 | 14.13 | -9.4 |
| Conventional mortgages rate | % | 16.50 | 15.97 | 15.63 | 15.14 | 14.97 | 15.43 | -6.5 |
| Aaa corporate bonds rate | % | 14.23 | 13.24 | 13.15 | 13.22 | 13.36 | 13.24 | -7.1 |
| 20 years Govt. bonds yield | % | 13.91 | 13.72 | 13.65 | 13.47 | 13.52 | 13.59 | -2.3 |
| Standard & Poor's 500 avg. | 1941-43=100 | 119.80 | 125.17 | 124.32 | 123.15 | 125.49 | 124.53 | 3.9 |

| Indicator | Unit | 1983 | 1984 1 | 1984 2 | 1984 3 | 1984 4 | 1984 | % (1 |
|---|---|---|---|---|---|---|---|---|
| Treasury bills (3 mo) yield | % | 12.68 | 12.56 | 12.78 | 12.21 | 11.83 | 12.35 | -2.6 |
| Prime rate | % | 14.13 | 14.90 | 14.59 | 14.03 | 13.56 | 14.27 | -5.7 |
| Conventional mortgages rate | % | 15.43 | 14.71 | 14.53 | 14.81 | 14.87 | 14.73 | -4.5 |
| Aaa corporate bonds rate | % | 13.24 | 13.47 | 13.33 | 13.01 | 12.86 | 13.34 | -.5 |
| 20 years Govt. bonds yield | % | 13.59 | 13.63 | 13.74 | 13.61 | 13.68 | 13.67 | -.3 |
| Standard & Poor's 500 avg. | 1941-43=100 | 124.53 | 121.32 | 123.47 | 125.72 | 127.84 | 124.59 | .1 |

## 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Personal Income for the year 1981 (before the July 1982 revision) had been selected for comparison. The actual figure is in Table 2.1 of the Survey of Current Business, No.3, March 1982 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Virginia, February 1981). Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Personal Income, bill. curr.$)

Actual figure: 2404.1

| Forecaster | Date of Forecast | Forecast | Page of Business Forecasts 1981 | % of Accuracy |
|---|---|---|---|---|
| Georgia State University | 11/80 | 2341.6 | 23 | -2.6 |
| The First National Bank of Chicago | 11/8/80 | 2347.0 | 24 | -2.4 |
| Manufacturers Hanover Trust | 11/12/80 | 2272.9 | 25 | -5.5 |
| UCLA | 12/80 | 2355.1 | 27 | -2.0 |
| Standard & Poor's Corporation | 12/11/80 | 2376.0 | 31 | -1.2 |
| Data Resources | 28/12/80 | 2362.0 | 32 | -1.8 |
| KEDI | 30/12/80 | 2383.5 | 33 | -.8 |
| Fidelity Bank | 31/12/80 | 2389.8 | 34 | -.6 |
| Morgan Guaranty | 1/6/81 | 2399.1 | 35 | -.2 |
| Chase Econometrics | 1/7/81 | 2398.1 | 36 | -.2 |

## 3.0 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

### Table 3.0 HISTORICAL DATA SOURCES

| Table No. | Data Series | Source |
|---|---|---|
| 1.10 REAL GROWTH | Gross national product, 1972$ | SCB, Table 1.2 |
| | Index of industrial production | IIP. page 2 |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.20 PRICES AND NOMINAL GNP | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit GNP price deflator | SCB, Table 7.1 |
| | Gross national product | SCB, Table 1.1 |
| | Personal consumption expenditures | SCB, Table 1.1 |
| | Gross private domestic investment | SCB, Table 1.1 |
| 1.30 EMPLOYMENT AND LABOR | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employed | SCB, Blue pages |
| | -Agriculture | SCB, Blue pages |
| | -Non agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page)

## Table 3.0 HISTORICAL DATA SOURCES (Continued)

| Table No. | Data Series | | Source |
|---|---|---|---|
| 1.41 HOUSING | Single-family housing starts | | SCB, Blue pages |
| | Multifamily housing starts | | SCB, Blue pages |
| | Mobile home shipments | | SCB, Blue pages |
| | Permits authorized | | SCB, Blue pages |
| | 1-family unit price, new | | FRB, Table 2.14 |
| | 1-family unit price, existing | | FRB, Table 2.14 |
| 1.42 AUTOMOBILES | Passenger cars: | Total sales | SCB, Blue pages |
| | | Domestic | SCB, Blue pages |
| | | Imported | SCB, Blue pages |
| | | Dealers inventories | SCB, Blue pages |
| | | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | | SCB, Blue pages |
| 1.50 FEDERAL AND STATE AND LOCAL BUDGETS | Federal govt.: | Income taxes | SCB, Table 3.2 |
| | | Corp.profit tax accr. | SCB, Table 3.2 |
| | | Surplus/deficit | SCB, Table 3.2 |
| | State and local governments: | Income taxes | SCB, Table 3.3 |
| | | Corp.profit tax accr. | SCB, Table 3.3 |
| | | Surplus/deficit | SCB, Table 3.3 |
| 1.60 INCOME | Personal income | | SCB, Table 2.1 |
| | Personal disposable income | | SCB, Table 2.1 |
| | Compensation of employees | | SCB, Table 1.11 |
| | Corporate after tax profits | | SCB, Table 1.11 |
| | Personal saving | | SCB, Table 2.1 |
| | Average weekly earnings | | SCB, Blue pages |
| 1.70 MONEY AND CREDIT | Currency and demand deposits, M1 | | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | | FRB, Table 1.21 |
| | Consumer installment credit | | FRB, Table 1.56 |
| | Commercial & industrial loans | | FRB, Table 1.23 |
| | Large denomination time deposits | | FRB, Table 1.21 |
| | Mortgages at S&L Associations | | FRB, Table 1.55 |
| 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES | Treasury bills (3 mo) yield | | FRB, Table 1.10 |
| | Prime rate | | FRB, Table 1.33 |
| | Conventional mortgages rate | | FRB, Table 1.10 |
| | Aaa corporate bonds rate | | FRB, Table 1.35 |
| | 20 years Government bonds yield | | FRB, Table 1.10 |
| | Standard & Poor's 500 average | | FRB, Table 1.36 |

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This forecast uses the August, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the August 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

## 1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

Late August interest rate developments fit in with the general forecast maintained here since last year, but the size of the most recent drop leads to a revised forecast. Fourth quarter growth is seen now a bit better than previously forecasted. Gradual strengthening of the economy will take place next year. REAL GROWTH. The news continues to be mixed, and declines are smaller than they have been, and some aspects of the economy are leveling as had been forecast here. PRICES. The price forecast remains essentially unchanged. Inflation is leveling now. It will accelerate to the end of the year and throughout 1983. EMPLOYMENT. KEDI sees 1982 as ending up with 9.1 unemployment rate. It will edge down in 1983. HOUSING. Starts jumped ahead, but that was not the start of a trend. The outlook remains cloudy. AUTOMOBILES. Detroit provides no good news which is no surprise. Sad to say, the U.S.A. will not return to being a world auto leader. GOVERNMENT BUDGETS. The tax increases (following, not very slowly, July tax cuts) approved by Congress had been anticipated here. Even with them, the deficit will still be close to $100 billion in fiscal 1984. INCOME. The forecast is barely altered. Real per capita disposable income will continue to decline this year and next. MONEY AND CREDIT. Growth of money supply will continue above the targets set up by Fed. Tight money and credit policy will resume in 1983. INTEREST RATES AND STOCK MARKET. In the coming months, interest rates will level off and increase a bit by the end of the year. No more spectacular gains in stock market prices are expected in the near future.

1.02 OVERVIEW

The forecast maintained here for most of this year is still the same: general flatness in the midsection of the year with a near balance between some gains and losses. The last quarter of this year should show some growth.

1. The recovery will begin by the end of this year. It will be slow. Increasingly economists are expressing a view that this Institute shares: a lackluster rebound with features not typical of past rebounds. KEDI agrees with Mr. Markowski of Sterling Grade & Co. that real growth in spending for plant and equipment will not occur until the middle or third quarter of next year.

2. Interest rates declines are bottoming. Frankly, they went down a bit more than had been forecast here for the last few months. The reason is that the economy is weak and the policy of the Federal Reserve and of the Administration add more to their decline than had been expected. The size of Federal deficits have not led to the rates gaining as others had anticipated.

3. Assumptions about Federal Reserve policy, maintained by KEDI since the beginning of 1981, remain unchanged: relaxation in the second half of 1982 and tightening in 1983.

4. The outlook for 1983. KEDI maintains its forecast: (a) Slow growth, (b) High interest rates by historical standards, (c) High unemployment, although a bit lower than in 1982, (d) Inflation in the 7 per cent range, (e) Tight Federal Reserve policy.

5. International outlook. In 1983, the U.S. will lead slow recovery. Nothing spectacular in industrialized countries and very slow progress in developing countries will be the norm.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes took place.

1. In 1986, all U.S. demand for oil should be met. In 1983, it is expected the weighted price of oil will be $34 per barrel; in 1984 it will go up to $37 per barrel; in 1985, to $40 per barrel, and in 1986, to $42 per barrel.

2. It is expected that the Mid-east crisis will continue throughout this year and more normal economic conditions including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In the second half of 1982 some relaxation, and in 1983 tightening is expected.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984, and U.S. record crops in 1984-86.

7. Average rates of growth in 1982-1986 in the major industrial countries: West Germany 3.4%, Japan 3.6%, Italy 2.4%, Great Britain 2.1%, France 2.8%.

8. No drastic changes in international relationships are assumed.

The September 1982 KEDI forecast is highlighted in Table 1.0 on page 4.

## KEDI FORECAST HIGHLIGHTS

### TABLE 1.00

| Indicator | Unit | 1981 | 1982 | 1985 | 1986 |
|---|---|---|---|---|---|
| Gross national product | bil. 1972$ | 1502.6 | 1479.6 | 1663.3 | 1786.5 |
| Index of industrial production | 1967=100 | 151.0 | 141.8 | 169.4 | 175.3 |
| Capacity utilization | % | 78.5 | 70.7 | 79.8 | 80.6 |
| Unemployment rate | % | 7.6 | 9.4 | 7.5 | 7.2 |
| Private housing starts | mil. | 1.084 | 1.088 | 1.686 | 1.724 |
| Car sales | mil. | 8.6 | 7.7 | 8.9 | 8.9 |
| Implicit GNP price deflator | 1972=100 | 195.5 | 208.0 | 263.3 | 285.2 |
| Consumer price index | 1967=100 | 272.4 | 290.8 | 363.7 | 397.5 |
| Producer price index* | 1967=100 | 269.7 | 280.5 | 364.8 | 398.9 |
| Federal deficit | bil.$ | -60.0 | -124.5 | -65.7 | -52.4 |
| Personal income | bil.$ | 2415.8 | 2555.5 | 3228.5 | 3495.8 |
| Prime rate | % | 18.87 | 15.08 | 12.61 | 13.27 |
| Mortgage rate | % | 16.52 | 16.34 | 13.06 | 13.62 |
| Currency plus demand deposits | bil.$ | 427.1 | 456.4 | 539.2 | 579.8 |
| Commercial and industrial loans | bil.$ | 360.6 | 389.4 | 484.6 | 529.2 |

* Finished goods

## 1.10 REAL GROWTH

(Table 1.10 on page 6)

Recent data confirm the forecast maintained here that the economy in the middle two quarters of this year would be fairly flat. The last quarter of this year is seen as showing a gain so that the last six months of 1982 end up showing growth in GNP of close to 3 per cent. Some momentum will be gained in 1983.

Most of the news points to the continuation of problems.

1. The survey in July of buying agents showed more of the same as new orders were not improving. The decline in inventory levels has been going on almost every month for close to three years. (This can be regarded as bringing us closer to some gains as supplies get too trimmed and need some replenishing.)

2. Industrial production was off by only an adjusted 0.1 per cent in July. However, it would have been more except for the temporary pick-up in car production.

3. Although not regarded here as a very reliable tool in forecasting, it is worth mentioning that the lack of change in the leading economic indicators also is another way of saying the doldrums continue. The index was at 127.9 of its 1967 average both in May and in June.

4. Steel production went down again in the third week of August. Production was at 40.5 per cent of capacity. So far this year, the making of steel has gone down by about 37 per cent as compared to last year.

5. Auto production and industrial production will both record more declines in August according to early indicators.

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 1982 2 | 1982 3 | 1982 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product,1972$ | bil. 1972 $ | 1502.6 | 1470.7 | 1475.3 | 1482.1 | 1490.2 | 1479.6 | -1.5 |
| Index of industrial product. | 1967=100 | 151.0 | 141.6 | 139.2 | 141.0 | 145.2 | 141.8 | -6.1 |
| Unemployment rate | % | 7.6 | 8.8 | 9.5 | 9.9 | 9.3 | 9.4 | 22.7 |
| Capacity utilization rate | % | 78.5 | 71.6 | 70.3 | 70.1 | 70.8 | 70.7 | -10.0 |
| Private housing starts | mil. units | 1.084 | .919 | .958 | 1.065 | 1.089 | 1.008 | -7.0 |
| Car sales | mil. units | 8.6 | 8.3 | 7.5 | 7.3 | 7.7 | 7.7 | -10.0 |

| Indicator | Unit | 1982 | 1983 1 | 1983 2 | 1983 3 | 1983 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product,1972$ | bil. 1972 $ | 1479.6 | 1506.1 | 1520.8 | 1535.3 | 1554.6 | 1529.1 | 3.3 |
| Index of industrial product. | 1967=100 | 141.8 | 147.2 | 150.9 | 154.8 | 157.0 | 152.7 | 7.7 |
| Unemployment rate | % | 9.4 | 8.7 | 8.5 | 8.1 | 7.9 | 8.3 | -8.5 |
| Capacity utilization rate | % | 70.7 | 71.9 | 73.2 | 74.6 | 75.3 | 73.8 | 4.4 |
| Private housing starts | mil. units | 1.008 | 1.135 | 1.431 | 1.716 | 1.740 | 1.505 | 49.3 |
| Car sales | mil. units | 7.7 | 8.0 | 7.7 | 8.1 | 8.0 | 8.0 | 3.9 |

| Indicator | Unit | 1983 | 1984 1 | 1984 2 | 1984 3 | 1984 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product,1972$ | bil. 1972 $ | 1529.1 | 1570.8 | 1586.7 | 1607.2 | 1625.3 | 1597.5 | 4.5 |
| Index of industrial product. | 1967=100 | 152.7 | 160.3 | 163.4 | 166.9 | 168.0 | 164.7 | 7.9 |
| Unemployment rate | % | 8.3 | 7.7 | 7.5 | 7.3 | 7.2 | 7.4 | -10.4 |
| Capacity utilization rate | % | 73.8 | 77.0 | 77.9 | 78.5 | 79.1 | 78.1 | 5.4 |
| Private housing starts | mil. units | 1.505 | 1.722 | 1.856 | 1.832 | 1.706 | 1.772 | 17.7 |
| Car sales | mil. units | 8.0 | 8.3 | 8.5 | 8.7 | 8.8 | 8.6 | 7.5 |

REAL GROWTH

There has been some encouraging news.

1. New construction gained by 1.3 per cent during June. That was the fourth month of increases. Although home building was down, it was balanced by gains in construction of plants and offices.
2. Although starts of single-family units were down in July, multifamily buildings jumped ahead aided by government subsidized apartment building.
3. Factory shipments managed to edge upward in June by 0.6 per cent. They also moved ahead in May.

There is mixed news from the agricultural area. Bumper grain crops are predicted for the autumn. For farmers, the coming bulging horn of plenty is no reason to rejoice in the good earth as the depressed grain prices put them deeper in debt and cut even more deeply into supporting stores, makers of farm machinery and suppliers of seed, fertilizer, etc. Only those involved in storage of the huge grain surpluses to come will profit.

Essentially, the news adds up to what has been expected here: mixed developments. The last quarter will show improvement. KEDI expects better performance in nonresidential construction, iron ore and nonferrous metal ores mining, chemicals, paper, nonelectrical machinery, plastics, and food industries.

More robust and balanced growth in the majority of U.S. industries is projected for 1983 and the following years.

## 1.20 PRICES

(Table 1.20 on page 9)

KEDI's forecast of price developments has been increased slightly. The new forecast sees the CPI gain of 6.8 per cent as compared with the 6.6 per cent forecasted last month.

In July, prices went up by .6 per cent and preliminary data for August show a modest increase again. Acceleration in price increases is expected to take place in the last quarter of this year. Main increases are expected in prices of medical services, transportation, houses, rents, electricity, drugs, and natural gas. Prices of gasoline and heating oil are expected to remain stable throughout most of the rest of this year. Some increases are expected to take place to the end of 1982.

In the long-term forecast, the percentage changes in the Consumer Price Index from one year to the next are projected:

| | |
|---|---|
| 1982 over 1981 | 6.8% |
| 1983 over 1982 | 7.1% |
| 1984 over 1983 | 8.0% |
| 1985 over 1984 | 7.9% |
| 1986 over 1985 | 8.3% |

As to producer prices, there were four months when they did not not change, so the June-to-July increase of 1.2 per cent is not viewed as anything to cause worry. More substantial increases are expected to take place in 1983, mainly for prices of raw materials.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Consumer price index,n.s.a. | 1967=100 | 272.4 | 283.6 | 287.4 | 293.9 | 298.4 | 290.8 | 6.8 |
| Producer price index,n.s.a.** | 1967=100 | 269.7 | 277.2 | 278.2 | 281.0 | 285.4 | 280.5 | 4.0 |
| Implicit GNP price deflator | 1972=100 | 195.5 | 203.6 | 206.1 | 209.0 | 213.2 | 208.0 | 6.4 |
| Gross national product | bil.$ | 2937.7 | 2995.5 | 3041.2 | 3097.6 | 3177.1 | 3077.9 | 4.8 |
| Personal consump.expend. | bil.$ | 1843.2 | 1919.4 | 1945.8 | 1982.7 | 2013.6 | 1965.4 | 6.6 |
| Gross private dom.investment | bil.$ | 471.5 | 414.8 | 447.0 | 461.5 | 476.2 | 449.9 | -4.6 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Consumer price index,n.s.a. | 1967=100 | 290.8 | 303.2 | 308.6 | 314.0 | 319.7 | 311.4 | 7.1 |
| Producer price index,n.s.a.** | 1967=100 | 280.5 | 291.1 | 298.8 | 305.6 | 310.8 | 301.6 | 7.5 |
| Implicit GNP price deflator | 1972=100 | 208.0 | 216.3 | 220.9 | 224.3 | 228.7 | 222.6 | 7.0 |
| Gross national product | bil$ | 3077.9 | 3257.7 | 3359.4 | 3443.7 | 3555.4 | 3404.0 | 10.6 |
| Personal consump.expend. | bil.$ | 1965.4 | 2057.0 | 2116.2 | 2194.3 | 2253.2 | 2155.3 | 9.7 |
| Gross private dom.investment | bil.$ | 449.9 | 487.9 | 503.2 | 514.7 | 524.5 | 507.6 | 12.8 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Consumer price index,n.s.a. | 1967=100 | 311.4 | 324.9 | 331.8 | 340.5 | 247.6 | 336.2 | 8.0 |
| Producer price index,n.s.a.** | 1967=100 | 301.6 | 314.5 | 323.2 | 332.7 | 344.8 | 328.8 | 9.0 |
| Implicit GNP price deflator | 1972=100 | 222.6 | 233.8 | 238.6 | 244.5 | 249.9 | 241.7 | 8.6 |
| Gross national product | bil.$ | 3404.0 | 3672.5 | 3785.9 | 3929.6 | 4061.6 | 3862.4 | 13.5 |
| Personal consump.expend. | bil.$ | 2155.3 | 2334.8 | 2389.6 | 2456.8 | 2507.9 | 2422.3 | 12.4 |
| Gross private dom.investment | bil.$ | 507.6 | 536.7 | 558.9 | 578.7 | 596.5 | 567.7 | 11.8 |

*Historical data (1) % change over previous year **Finished goods

## 1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

The forecast of the unemployment rate for 1982 and 1983 is increased here. It had been anticipated by KEDI that joblessness would reach 9.6 per cent in July. Actual figure was 9.8 per cent. The forecast has been increased from 9.25 per cent to 9.89 per cent for the third quarter of 1982, and from 8.84 per cent to 9.26 per cent for the last quarter of this year. The forecast for 1983 has been increased only marginally.

Economists are divided as to the future of the unemployment rate. Robert Gough of Data Resources pointed to a rate of 10 per cent or more. Joel Popkin sees the rate as being 10.2 in September.

On the other hand, Donald Straszheim of Wharton Econometrics feels the rate has already reached its peak. The Administration was saying that they did not see that rate as reaching 10 per cent.

At this Institute, the rate is now seen as unlikely going above 10 per cent by more than a small fraction. In the fourth quarter, it will begin to go down.

The long-term forecast by KEDI is summarized here:

Unemployment Rate
(% of civilian labor force)

| | |
|---|---|
| 1982 | 9.3 |
| 1983 | 8.3 |
| 1984 | 7.4 |
| 1985 | 7.2 |
| 1986 | 7.3 |

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 1982 2 | 1982 3 | 1982 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Population | mil. | 225.9 | 228.0 | 229.2 | 230.4 | 231.4 | 229.6 | 1.6 |
| Civilian labor force | mil. | 108.7 | 109.1 | 110.2 | 110.9 | 111.8 | 110.5 | 1.7 |
| Employment | mil. | 100.5 | 99.5 | 99.8 | 99.9 | 101.4 | 100.2 | -.3 |
| Agriculture | mil. | 3.4 | 3.4 | 3.4 | 3.3 | 3.3 | 3.4 | .0 |
| Non agricult. | mil. | 97.1 | 96.1 | 96.4 | 97.6 | 98.1 | 96.8 | -.3 |
| Unemployment rate | % | 7.62 | 8.77 | 9.46 | 9.89 | 9.26 | 9.35 | 22.7 |

| Indicator | Unit | 1982 | 1983 1 | 1983 2 | 1983 3 | 1983 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Population | mil. | 229.6 | 231.5 | 232.2 | 232.9 | 233.4 | 232.5 | 1.3 |
| Civilian labor force | mil. | 110.5 | 112.6 | 113.8 | 114.9 | 115.8 | 114.3 | 3.3 |
| Employment | mil. | 100.2 | 102.8 | 104.1 | 105.6 | 106.7 | 104.8 | 4.6 |
| Agriculture | mil. | 3.4 | 3.3 | 3.4 | 3.3 | 3.4 | 3.4 | .0 |
| Non agricult. | mil. | 96.8 | 99.5 | 100.7 | 102.3 | 103.3 | 101.4 | 4.7 |
| Unemployment rate | % | 9.35 | 8.74 | 8.52 | 8.09 | 7.86 | 8.30 | -8.5 |

| Indicator | Unit | 1983 | 1984 1 | 1984 2 | 1984 3 | 1984 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Population | mil. | 232.5 | 234.5 | 235.2 | 236.0 | 236.9 | 235.7 | 1.4 |
| Civilian labor force | mil. | 114.3 | 117.0 | 117.9 | 118.8 | 120.1 | 118.5 | 3.7 |
| Employment | mil. | 104.8 | 108.0 | 109.0 | 110.2 | 111.4 | 109.6 | 4.6 |
| Agriculture | mil. | 3.4 | 3.3 | 3.3 | 3.4 | 3.4 | 3.4 | .0 |
| Non agricult. | mil. | 101.4 | 104.7 | 105.7 | 106.8 | 108.0 | 106.2 | 4.7 |
| Unemployment rate | % | 8.30 | 7.73 | 7.54 | 7.28 | 7.22 | 7.44 | -10.4 |

*Historical data (1) % change over previous year

## 1.41 HOUSING

(Table 1.41 on page 13)

Good news: Housing starts bounded ahead in July. They were up by 33.7 per cent. Moderating that jump is the fact that the gain is largely temporary due to the influx of government money in July to subsidize multifamily units.

Actually, single-family units DECLINED. The rate of 614,000 in July was under the adjusted annual rate of 616,000 in June. Neither of those rates would warm the hearts of builders. Significant improvement in the housing industry is far from being in sight.

The forecast here remains essentially the same. KEDI agrees with Michael Sumichrast of the National Association of Home Builders in that housing sales will be weak for a few years. The prohibitive interest rates are keeping most people out of the market.

In 1983, KEDI expects some improvement. A total of 1.3 million units are expected to be built. That would be about 30 per cent above the total calculated for this year. Still, it would be under the average the industry sees as needed to supply housing needs--if interest rates were capable of being paid by the typical home buyer.

A survey by a San Francisco bank found that 70 per cent of potential home buyers are not in the market because they see unemployment as a possibility. Growth in 1983 of the economy should bring some of that group a better sense of security and a few into the market again.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 1982 2 | 1982 3 | 1982 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Single-family housing starts | mil. | .706 | .586 | .603 | .620 | .637 | .611 | -14.5 |
| Multifamily housing starts | mil. | .379 | .333 | .355 | .445 | .452 | .396 | 4.5 |
| Mobile home shipments | mil. | .241 | .238 | .246 | .259 | .262 | .251 | 4.1 |
| Permits authorized | mil. | .969 | .832 | .924 | .962 | 1.008 | .932 | -4.7 |
| 1-family unit** price, new | tho.$ | 83.1 | 80.7 | 86.2 | 90.4 | 94.5 | 88.0 | 5.9 |
| 1-family unit** price,existing | tho.$ | 78.0 | 79.2 | 80.4 | 82.6 | 85.4 | 81.9 | 5.0 |

| Indicator | Unit | 1982 | 1983 1 | 1983 2 | 1983 3 | 1983 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Single-family housing starts | mil. | .611 | .676 | .847 | .858 | .870 | .813 | 33.1 |
| Multifamily housing starts | mil. | .396 | .459 | .584 | .647 | .632 | .580 | 46.5 |
| Mobile home shipments | mil. | .251 | .287 | .301 | .324 | .350 | .316 | 25.9 |
| Permits authorized | mil. | .932 | 1.081 | 1.226 | 1.363 | 1.347 | 1.254 | 34.5 |
| 1-family unit** price, new | mil. | 88.0 | 97.5 | 99.3 | 101.5 | 103.2 | 100.4 | 14.1 |
| 1-family unit** price,existing | tho.$ | 81.9 | 87.8 | 90.2 | 93.2 | 95.7 | 91.7 | 12.0 |

| Indicator | Unit | 1983 | 1984 1 | 1984 2 | 1984 3 | 1984 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Single-family housing starts | mil. | .813 | .840 | .861 | .928 | .916 | .886 | 9.0 |
| Multifamily housing starts | mil. | .580 | .662 | .665 | .670 | .650 | .662 | 14.1 |
| Mobile home shipments | mil. | .316 | .317 | .345 | .360 | .343 | .341 | 7.9 |
| Permits authorized | mil. | 1.245 | 1.300 | 1.419 | 1.487 | 1.492 | 1.425 | 13.6 |
| 1-family unit** price, new | tho.$ | 100.4 | 105.6 | 108.1 | 111.3 | 113.8 | 109.7 | 9.3 |
| 1-family unit** price,existing | tho.$ | 91.7 | 98.4 | 101.5 | 103.4 | 105.6 | 102.2 | 11.5 |

*Historical data (1) % change over previous year **Not seas. adjusted

## 1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast by KEDI remains quite bleak. Recent data confirm the continued gloom. In early August, U.S. built cars were selling at a rate 27 per cent below the comparable rate for last year. In the first 10 days of August car sales were down to 112.4 thousand from about 153.5 thousand in 1981. (And last year was depressed also.) Because of lagging auto sales, GM extended plant closings by one-to-two weeks for new model changeover closings. Auto production toward the end of August picked up but it was mostly due to plants re-opening after a break for equipment changes. Car building was still 4.4 per cent lower than a year ago which was depressing by itself.

The long-term outlook is still pessimistic as this Institute. For example, the long-term outlook in 1990 shows 9.4 million cars sold in this country.

Leaders in the auto industry are now publicly admitting that the United States will never achieve the dominance in the world auto field that it once had in the "good old days." U.S. output last year was 82 per cent of total Japanese motor vehicle production according to Donald E. Petersen, the president of Ford.

Contributing to the problem has been a lack of consistency in reading consumer trends. Just as auto makers are finishing their switch to making small cars, more people have started buying larger, more expensive models.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Passenger cars | | | | | | | | |
| Total sales | mil. | 8.6 | 8.3 | 7.5 | 7.3 | 7.7 | 7.7 | -10.0 |
| Domestic | mil. | 6.3 | 6.0 | 5.5 | 5.6 | 6.0 | 5.8 | -7.9 |
| Imported | mil. | 2.3 | 2.3 | 2.0 | 1.7 | 1.7 | 1.9 | -17.4 |
| Dealers inventories** | mil. | 1.5 | 1.1 | 1.2 | 1.4 | 1.7 | 1.4 | -6.7 |
| Factory shipments | mil. | 6.3 | 4.1 | 4.9 | 4.7 | 5.6 | 4.8 | -13.7 |
| Light-duty truck sales | mil. | 1.6 | 1.9 | 1.7 | 1.7 | 1.8 | 1.8 | 12.5 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Passenger cars | | | | | | | | |
| Total sales | mil. | 7.7 | 8.0 | 7.7 | 8.1 | 8.0 | 8.0 | 3.9 |
| Domestic | mil. | 5.8 | 6.2 | 5.9 | 6.2 | 6.3 | 6.2 | 6.9 |
| Imported | mil. | 1.9 | 1.8 | 1.8 | 1.9 | 1.7 | 1.8 | -5.3 |
| Dealers inventories** | mil. | 1.4 | 1.7 | 1.4 | 1.4 | 1.5 | 1.5 | 7.1 |
| Factory shipments | mil. | 4.8 | 5.8 | 5.9 | 5.4 | 6.3 | 5.8 | 20.8 |
| Light-duty truck sales | mil. | 1.8 | 1.7 | 1.9 | 2.0 | 1.9 | 1.9 | 5.6 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Passenger cars | | | | | | | | |
| Total sales | mil. | 8.0 | 8.3 | 8.5 | 8.7 | 8.8 | 8.6 | 7.5 |
| Domestic | mil. | 6.2 | 6.6 | 6.7 | 7.0 | 7.2 | 6.9 | 11.3 |
| Imported | mil. | 1.8 | 1.7 | 1.8 | 1.7 | 1.6 | 1.7 | -5.6 |
| Dealers inventories** | mil. | 1.5 | 1.4 | 1.5 | 1.4 | 1.5 | 1.5 | .0 |
| Factory shipments | mil. | 5.8 | 6.4 | 6.5 | 6.6 | 7.0 | 6.6 | 13.8 |
| Light-duty truck sales | mil. | 1.9 | 2.0 | 2.1 | 2.2 | 2.3 | 2.2 | 15.8 |

*Historical data (1) % change over previous year **Seas. not adjusted

## 1.50 BUDGETS

(Table 1.50 on page 17)

The forecast here is only slightly different from previous ones. (What the government giveth away, the government can taketh back--and will.) Since the latter part of 1981, KEDI has had $90 billion incorporated into its projection as an estimate of the total tax package. That is close to the $98.3 billion recently approved by Congress.

The forecast shows that even with this tax increase, no balancing of the Federal budget will be achieved. For instance, for fiscal 1983, the new deficit forecast is only about 5 per cent less than what was calculated for the August Survey. Comparative projections are given here.

Fiscal Year Projections
(In billions $)

| | Administration | Congressional Budget Office | KEDI August | KEDI September |
|---|---|---|---|---|
| 1982 | 109 | * | 110 | 110 |
| 1983 | 115 | $141 - 151 | 120 | 114 |
| 1984 | 92 | * | 108 | 98 |
| 1985 | 84 | * | 78 | 69 |

* Not available

Calculations of the impact of lower Federal deficits on interest rates show that the result will be insignificant. As was stated in issues earlier this summer, projected high surpluses in Households, Banking, and State and Local Governments sectors will compensate the Federal Government and the Rest of the World sectors' deficits. High Federal deficits do not, therefore, directly mean higher interest rates. The outlook for state and local budgets is unchanged.

## TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 1982 2 | 1982 3 | 1982 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Federal govt.: | | | | | | | | |
| Income taxes | bil.$ | 298.1 | 299.9 | 303.6 | 278.9 | 283.5 | 291.5 | -2.2 |
| Corporate prof. tax accruals | bil.$ | 67.3 | 45.6 | 43.7 | 44.2 | 50.6 | 46.0 | -31.6 |
| Surplus/deficit | bil.$ | -60.0 | -119.3 | -122.4 | -138.5 | -117.8 | -124.6 | 207.6 |
| State and local governments: | | | | | | | | |
| Income taxes | bil.$ | 88.6 | 93.6 | 95.4 | 97.8 | 100.1 | 96.7 | 9.1 |
| Corporate prof. tax accruals | bil.$ | 10.1 | 10.1 | 10.0 | 10.2 | 11.1 | 10.4 | 3.0 |
| Surplus/deficit | bil.$ | 31.7 | 27.7 | 32.3 | 33.1 | 32.8 | 31.7 | .0 |

| Indicator | Unit | 1982 | 1983 1 | 1983 2 | 1983 3 | 1983 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Federal govt.: | | | | | | | | |
| Income taxes | bil.$ | 291.5 | 304.0 | 307.5 | 281.5 | 294.3 | 296.8 | 1.8 |
| Corporate prof. tax accruals | bil.$ | 46.0 | 55.9 | 62.4 | 68.7 | 73.5 | 65.1 | 41.5 |
| Surplus/deficit | bil.$ | -124.6 | -103.8 | -94.5 | -119.6 | -102.4 | -105.1 | -21.0 |
| State and local governments: | | | | | | | | |
| Income taxes | bil.$ | 96.7 | 104.8 | 108.7 | 109.3 | 110.9 | 108.4 | 33.7 |
| Corporate prof. tax accruals | bil.$ | 10.4 | 12.3 | 13.6 | 14.0 | 15.1 | 13.9 | 25.0 |
| Surplus/deficit | bil.$ | 31.7 | 34.3 | 35.6 | 37.2 | 36.4 | 35.9 | 13.2 |

| Indicator | Unit | 1983 | 1984 1 | 1984 2 | 1984 3 | 1984 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Federal govt.: | | | | | | | | |
| Income taxes | bil.$ | 296.8 | 308.4 | 319.6 | 334.2 | 350.8 | 328.3 | 10.6 |
| Corporate prof. tax accruals | bil.$ | 65.1 | 76.8 | 81.4 | 87.9 | 92.4 | 84.6 | 30.0 |
| Surplus/deficit | bil.$ | -105.6 | -97.5 | -94.2 | -86.5 | -79.3 | -89.4 | -14.9 |
| State and local governments: | | | | | | | | |
| Income taxes | bil.$ | 108.4 | 113.8 | 115.9 | 120.7 | 123.5 | 118.4 | 9.2 |
| Corporate prof. tax accruals | bil.$ | 13.9 | 15.2 | 15.8 | 16.4 | 17.2 | 16.2 | 16.5 |
| Surplus/deficit | bil.$ | 35.9 | 35.7 | 35.9 | 36.4 | 37.2 | 36.3 | 1.1 |

*Historical data (1) % change over previous year

## 1.60 INCOME

(Table 1.60 on page 19)

The forecast for personal income and components shows only minor adjustments.

The projection of real per capita disposable income reflects a decline of 1.8 per cent for 1982 as compared to 1981. In 1983, it will decline again by 1.0 per cent. During 1984 there will be more of a plateau reached and a very small gain of roughly 0.2 per cent is seen at this time. After that, there will be some real growth--small as it may be. The gain in 1985 over 1984 is seen as 0.9 per cent, and in 1986 growth of 1.1 per cent is anticipated by KEDI.

The declining standard of living has been confirmed by recent Census Bureau reports. Real family income went down by 3.5 per cent in 1981. It had gone down by 5.5 per cent in 1980. The typical family in 1981 had a median income of $22,390. Adjusted for inflation, after-tax income was 12 per cent lower than it was in 1972, according to the Tax Foundation, even though median income about doubled in 10 years.

The forecast of corporate after tax profits also remains unchanged. KEDI expectsslight improvements throughout the rest of the year, mainly due to increases in profits or smaller losses in construction, food and kindred products, utilities, nonelectrical machinery, chemicals, railroads, and lumber industries. There are no downward revisions in corporate after tax profits due to the recently approved $98.3 billion tax package, because this measure was anticipated in all KEDI's monthly Surveys since the autumn of 1981.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Personal income | bil.$ | 2415.8 | 2510.5 | 2553.5 | 2566.7 | 2591.3 | 2555.5 | 5.8 |
| Personal disposable income | bil.$ | 2029.1 | 2117.1 | 2154.5 | 2190.0 | 2207.7 | 2167.3 | 6.8 |
| Compensation of employees | bil.$ | 1767.6 | 1819.9 | 1850.6 | 1872.3 | 1927.5 | 1867.6 | 5.7 |
| Corporate after tax profits | bil.$ | 150.9 | 115.9 | 115.0 | 120.8 | 129.7 | 120.4 | -21.2 |
| Personal saving | bil.$ | 130.2 | 139.1 | 149.4 | 163.1 | 155.4 | 151.8 | 16.6 |
| Average weekly earnings | $ | 316.8 | 320.5 | 328.7 | 337.8 | 343.1 | 332.5 | 5.0 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Personal income | bil.$ | 2555.5 | 2623.2 | 2684.7 | 2761.3 | 2823.2 | 2723.3 | 6.6 |
| Personal disposable income | bil.$ | 2167.3 | 2214.9 | 2268.5 | 2370.5 | 2418.2 | 2318.0 | 7.0 |
| Compensation of employees | bil.$ | 1867.6 | 1947.5 | 1991.4 | 2017.8 | 2052.8 | 2002.4 | 7.2 |
| Corporate after tax profits | bil.$ | 120.4 | 135.4 | 141.7 | 150.9 | 157.5 | 146.4 | 21.6 |
| Personal saving | bil.$ | 151.8 | 151.2 | 146.8 | 165.3 | 155.7 | 154.8 | 2.0 |
| Average weekly earnings | $ | 332.5 | 347.8 | 355.2 | 361.5 | 366.5 | 357.8 | 7.6 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Personal income | bil.$ | 2723.3 | 2866.7 | 2969.8 | 3044.5 | 3136.8 | 3004.4 | 10.3 |
| Personal disposable income | bil.$ | 2318.0 | 2444.5 | 2534.3 | 2589.5 | 2662.5 | 2557.7 | 10.3 |
| Compensation of employees | bil.$ | 2002.4 | 2092.4 | 2162.7 | 2238.9 | 2290.5 | 2196.1 | 9.7 |
| Corporate after tax profits | bil.$ | 146.4 | 158.5 | 162.7 | 166.4 | 171.9 | 164.9 | 12.6 |
| Personal saving | bil.$ | 154.8 | 156.3 | 160.2 | 163.8 | 165.2 | 161.4 | 4.3 |
| Average weekly earnings | $ | 357.8 | 373.7 | 379.4 | 384.6 | 389.7 | 381.9 | 6.7 |

*Historical data (1) % change over previous year

## 1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The recent relaxation in the Federal Reserve monetary and credit policy corresponds with KEDI's assumptions, adopted and maintained since 1981. Treasury Under Secretary, Beryl Sprinkel spoke of people being convinced that inflation is really down. The Federal Reserve Board itself had helped curtail it with its downward pressures on the growth of the money supply.

The Federal Reserve maintains that recent large doses of reserves fed into the banking system were consistent with money-growth targets. According to the Fed, the money supply did not "bulge" as expected after the July tax cut so they have been able to add reserves without putting upward pressure on the inflation rate. KEDI's projection corresponds with that view. The relaxation of monetary and credit policies, in KEDI's forecast, does not have a very significant effect on future increases in price levels. KEDI expects that the Fed will keep relaxing its policies until the end of this year and resume a more rigid position in 1983.

The forecast data for consumer credit, commercial and industrial loans, mortgages and other credit market instruments have been slightly increased mainly due to the impact of projected lower interest rates.

The main increases are shown for commercial and industrial loans. KEDI anticipates that the demand for these loans will go up by approximately 8 per cent when compared with the previous year and will remain strong in 1983 and 1984.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Currency and demand deposits, M1 | bil.$ | 427.1 | 448.0 | 452.6 | 458.7 | 466.3 | 456.4 | 6.9 |
| Time deposits, adjusted, M2 | bil.$ | 1723.4 | 1851.1 | 1889.5 | 1908.7 | 1929.6 | 1892.2 | 9.8 |
| Consumer instal. credit | bil.$ | 333.4 | 327.1 | 336.9 | 345.2 | 351.4 | 351.4 | 5.4 |
| Commerc. & indus. loans at banks | bil.$ | 360.6 | 371.9 | 377.2 | 382.1 | 389.4 | 389.4 | 8.0 |
| Large denomination time dep. | bil.$ | 305.5 | 317.1 | 324.3 | 331.0 | 334.1 | 334.1 | 9.4 |
| Mortgages at S & L Assns. | bil.$ | 518.4 | 515.1 | 517.2 | 520.6 | 528.5 | 528.5 | 1.9 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Currency and demand deposits, M1 | bil.$ | 456.4 | 474.8 | 481.6 | 486.9 | 491.5 | 483.7 | 6.0 |
| Time deposits, adjusted, M2 | bil.$ | 1892.2 | 1948.5 | 1988.5 | 2023.9 | 2068.6 | 2007.4 | 6.1 |
| Consumer instal. credit | bil.$ | 351.4 | 356.8 | 361.4 | 368.9 | 377.5 | 377.5 | 7.4 |
| Commerc. & indus. loans at banks | bil.$ | 389.4 | 396.7 | 405.9 | 415.0 | 420.9 | 420.9 | 8.1 |
| Large denomination time dep. | bil.$ | 334.1 | 337.2 | 341.5 | 349.3 | 358.7 | 358.7 | 7.4 |
| Mortgages at S & L Assns. | bil.$ | 528.5 | 532.8 | 539.6 | 550.3 | 559.7 | 559.7 | 5.9 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Currency and demand deposits, M1 | bil.$ | 483.7 | 484.7 | 508.2 | 515.9 | 526.6 | 508.9 | 5.3 |
| Time deposits, adjusted, M2 | bil.$ | 2007.4 | 2098.9 | 2149.3 | 2207.8 | 2259.8 | 2179.0 | 8.5 |
| Consumer instal. credit | bil.$ | 377.5 | 388.6 | 390.2 | 399.4 | 409.6 | 409.6 | 8.5 |
| Commerc. & indus. loans at banks | bil.$ | 420.9 | 427.5 | 443.9 | 444.6 | 451.4 | 451.4 | 7.2 |
| Large denomination time dep. | bil.$ | 358.7 | 360.2 | 369.8 | 378.6 | 385.4 | 385.4 | 7.4 |
| Mortgages at S & L Assns. | bil.$ | 559.7 | 566.7 | 574.3 | 586.2 | 597.8 | 597.8 | 10.7 |

*Historical data (1) % change over previous year

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

Since 1981, KEDI has included as part of its forecasts, declining interest rates in 1982. Recent declines correspond with that general projected trend. However, the most recent drop during the last week of August brought the rates lower than had been expected here. To call a spade a spade, this is a pleasant revision to make.

The general decline in interest rates is in line with Federal Reserve policy. At the same time, it reflects the weakness of the economy. Still, no further dramatic decreases in the rates are expected. For the short-term, the forecast here has been slightly lowered. The prime rate in the fourth quarter is now expected to average 13 per cent. The end-of-the-year rate is seen as likely being 12 per cent but possibly as low as 11.5 per cent. The long-term prediction at this Institute for the years 1982-1986 show the prime rate not going below 10 per cent in terms of monthly or quarterly averages. The view at Data Resources that the prime rate will still still be in double digits a year from now is shared here. The forecasts of economists differ widely. A Newsweek survey (August 30, 1982, page 19) showed the projections for the prime rate at the end of the year for six forecasters had a range of 5.5 percentage points. Paul Trevor of Trevor Stewart Burton & Jacobson sees the rate as being 10 per cent at the year end. Arnold Moskowitz of Dean Witter Reynolds forecasts the rate at 13, and Marc Goloven of Manufaturers Hanover Trust looks to a 15.5 per cent prime rate.

The forecast of the stock market performance has been revised upwards due to the recent strength there brought on in part by the

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Treasury bills (3 mo) yield | % | 14.03 | 12.81 | 12.48 | 11.01 | 10.62 | 12.73 | -9.3 |
| Prime rate | % | 18.87 | 16.27 | 16.50 | 14.66 | 12.88 | 15.08 | -20.0 |
| Conventional mortgages rate | % | 16.52 | 17.10 | 16.54 | 16.21 | 15.49 | 16.34 | -1.0 |
| Aaa corporate bonds rate | % | 14.17 | 15.01 | 14.52 | 13.65 | 12.80 | 14.00 | -1.1 |
| 20 years Govt. bonds yield | % | 13.72 | 14.27 | 13.72 | 13.42 | 13.75 | 13.79 | .5 |
| Standard & Poor's 500 avg. | 1941-43=100 | 128.05 | 114.25 | 114.12 | 117.84 | 123.26 | 117.37 | -8.3 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Treasury bills (3 mo) yield | % | 12.73 | 10.04 | 10.16 | 10.85 | 11.65 | 10.68 | -6.1 |
| Prime rate | % | 15.08 | 11.74 | 11.85 | 12.06 | 12.57 | 12.06 | -20.0 |
| Conventional mortgages rate | % | 16.34 | 15.42 | 14.97 | 14.67 | 14.34 | 14.85 | -9.2 |
| Aaa corporate bonds rate | % | 14.00 | 12.42 | 11.89 | 11.94 | 11.98 | 12.06 | -13.9 |
| 20 years Govt. bonds yield | % | 13.79 | 13.65 | 13.54 | 13.27 | 13.16 | 13.41 | -2.8 |
| Standard & Poor's 500 avg. | 1941-43=100 | 117.37 | 124.25 | 123.87 | 122.26 | 125.18 | 123.89 | 5.6 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Treasury bills (3 mo) yield | % | 10.68 | 11.07 | 11.14 | 11.84 | 12.53 | 11.65 | 9.1 |
| Prime rate | % | 12.06 | 12.45 | 11.85 | 11.24 | 12.75 | 12.07 | .0 |
| Conventional mortgages rate | % | 14.85 | 14.03 | 13.72 | 13.04 | 13.27 | 13.52 | -9.0 |
| Aaa corporate bonds rate | % | 12.06 | 12.67 | 12.24 | 12.03 | 12.85 | 12.45 | 3.2 |
| 20 years Govt. bonds yield | % | 13.41 | 13.24 | 13.56 | 13.84 | 13.72 | 13.59 | 1.3 |
| Standard & Poor's 500 avg. | 1941-43=100 | 123.89 | 120.45 | 122.67 | 128.34 | 123.51 | 123.74 | .1 |

*Historical data (1) % change over previous year

INTEREST RATES, YIELDS, AND SECURITIES PRICES

interest rates decline that was a bit more than had been anticipated here. It is not expected here that there will be any additional spectacular gains in the Dow Jones Industrials or Standard & Poor's 500 Average.

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Residential Construction Expenditures in current dollars for the year 1981 (before the July 1982 revision), have been selected for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No.3, March 1982 (U.S.Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981). Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

## Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Residential Construction, billions of current $)

Actual figure: 105.5

| Forecaster | Date of Forecast | Forecast | Page of Business Forecasts 1981 | % of Accuracy |
|---|---|---|---|---|
| United California Bank | 10/80 | 120.0 | 6 | +13.7 |
| A.George Golş,Arthur D. Little | 11/80 | 93.6 | 6 | -11.2 |
| Albert T.Sommers, The Conference Board | 11/20/80 | 103.0 | 8 | -2.4 |
| Metropolitan Life | 12/80 | 105.0 | 10 | -.5 |
| National Securities and Research Corporation | 12/80 | 108.0 | 10 | +2.4 |
| U.S.Trust Company of New York | 12/80 | 120.3 | 12 | +14.0 |
| Calvin R. Myers, The Merchants National Bank of Aurora | 12/5/80 | 107.0 | 12 | +1.4 |
| United Business Service | 12/8/80 | 127.0 | 14 | +20.4 |
| Walter D. Fackler, University of Chicago | 12/8/80 | 114.0 | 14 | +8.1 |
| Georgia State University | 11/80 | 112.8 | 23 | +6.9 |
| The First National Bank of Chicago | 11/8/80 | 109.0 | 24 | +3.3 |
| Manufacturers Hanover Trust | 12/11/80 | 114.5 | 25 | +8.5 |
| UCLA | 12/80 | 113.4 | 27 | +7.5 |
| Bankers Trust Company | 12/10/80 | 100.2 | 30 | -5.0 |
| Standard & Poor's Corporation | 12/11/80 | 119.0 | 31 | +12.8 |
| Data Resources, Inc. | 12/28/80 | 107.5 | 32 | +1.9 |
| KEDI | 12/30/80 | 103.1 | 33 | -2.3 |
| Fidelity Bank | 12/31/80 | 105.8 | 34 | +.3 |
| Morgan Guaranty Trust Company | 1/6/81 | 117.0 | 35 | +10.9 |
| Chase Econometrics | 1/7/81 | 116.4 | 36 | +10.3 |
| Equitable Life Assurance Society | 1/9/81 | 109.8 | 37 | +4.1 |

## 4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

### Table 3.0 HISTORICAL DATA SOURCES

| Table No. | Data Series | Source |
|---|---|---|
| 1.10 REAL GROWTH | Gross national product, 1972$ | SCB, Table 1.2 |
| | Index of industrial production | IIP, page 2 |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.20 PRICES AND NOMINAL GNP | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit GNP price deflator | SCB, Table 7.1 |
| | Gross national product | SCB, Table 1.1 |
| | Personal consumption expenditures | SCB, Table 1.1 |
| | Gross private domestic investment | SCB, Table 1.1 |
| 1.30 EMPLOYMENT AND LABOR | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employed | SCB, Blue pages |
| | -Agriculture | SCB, Blue pages |
| | -Non/agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 4.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

| Table No. | Data Series | | Source |
|---|---|---|---|
| 1.41 HOUSING | Single-family housing starts | | SCB, Blue pages |
| | Multifamily housing starts | | SCB, Blue pages |
| | Mobile home shipments | | SCB, Blue pages |
| | Permits authorized | | SCB, Blue pages |
| | 1-family unit price, new | | FRB, Table 2.14 |
| | 1-family unit price, existing | | FRB, Table 2.14 |
| 1.42 AUTOMOBILES | Passenger cars: | Total sales | SCB, Blue pages |
| | | Domestic | SCB, Blue pages |
| | | Imported | SCB, Blue pages |
| | | Dealers inventories | SCB, Blue pages |
| | | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | | SCB, Blue pages |
| 1.50 FEDERAL AND STATE AND LOCAL BUDGETS | Federal govt.: | Income taxes | SCB, Table 3.2 |
| | | Corp.profit tax accr. | SCB, Table 3.2 |
| | | Surplus/deficit | SCB, Table 3.2 |
| | State and local governments: | Income taxes | SCB, Table 3.3 |
| | | Corp.profit tax accr. | SCB, Table 3.3 |
| | | Surplus/deficit | SCB, Table 3.3 |
| 1.60 INCOME | Personal income | | SCB, Table 2.1 |
| | Personal disposable income | | SCB, Table 2.1 |
| | Compensation of employees | | SCB, Table 1.11 |
| | Corporate after tax profits | | SCB, Table 1.11 |
| | Personal saving | | SCB, Table 2.1 |
| | Average weekly earnings | | SCB, Blue pages |
| 1.70 MONEY AND CREDIT | Currency and demand deposits, M1 | | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | | FRB, Table 1.21 |
| | Consumer installment credit | | FRB, Table 1.56 |
| | Commercial & industrial loans | | FRB, Table 1.23 |
| | Large denomination time deposits | | FRB, Table 1.21 |
| | Mortgages at S&L Associations | | FRB, Table 1.55 |
| 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES | Treasury bills (3 mo) yield | | FRB, Table 1.10 |
| | Prime rate | | FRB, Table 1.33 |
| | Conventional mortgages rate | | FRB, Table 1.10 |
| | Aaa corporate bonds rate | | FRB, Table 1.35 |
| | 20 years Government bonds yield | | FRB, Table 1.10 |
| | Standard & Poor's 500 average | | FRB, Table 1.36 |

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President: Dr. Vladimir J. Simunek

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This forecast uses the September, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the September 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

## 1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

### 1.01 EXECUTIVE SUMMARY

The forecast for the economy is not changed. Mild growth averaging 3 per cent a year is projected here for the next three years. REAL GROWTH The news is mostly of declines, but the size of the downward moves are generally small. The last quarter will show some improvements. PRICES The forecast is moved down a bit so the change in the CPI for 1982 is now seen as 6.5 per cent. EMPLOYMENT Joblessness is seen as averaging 9.5 per cent this year and declining steadily over the next few years to 7.7 per cent in 1985. HOUSING Multi-family starts will show a gain this year and single family starts will be even deeper in the doldrums than they were in '81, but 1983 will be better. AUTOS The forecast is cheerless. A leading auto publication has finally lowered its forecast. KEDI's has been quite low all along with car sales seen at the 7.7 million level this year and 7.9 million in '83. Unlike past recoveries, autos and housing will not lead us out of this economic scene. The service sector will play an important part. BUDGETS Red ink for fiscal 1983 is seen as $124 billion--not as awash in the ink as the Congressional Budget Office with their $155 billion total. INCOME Well, it managed not to go down in August. But, wages were off. That does not point to a quick turn-about. MONEY AND CREDIT The long-maintained outlook here is being realized, i.e. some relaxing of the Fed's policies. Consumer credit will gain more next year as confidence grows and people get used to somewhat lower rates. INTEREST RATES The forecast is not changed. The prime rate is seen at the 13 per cent level at the end of this year.

1.02 OVERVIEW

The forecast that has been maintained here for most of this year remains the same: general flatness and some small measure of growth before the end of the year.

The Administration has been overly optimistic in its pronouncements and interpretations of developments. KEDI also likes to look on the bright side, but there are limits. Reagan first looked ahead in late 1981 to a lively economy in the fall of this year. No vigorous rebound has--or will--occur. Now, one of Reagan's advisers, Arthur B. Laffer, talks of a boom in 1984 building on growth in 1983. Internationally, the U.S.A. is all alone in predicting rapid recovery of the world economy based on the impetus from Reagan's policies.

KEDI's view is that THERE WILL NOT BE AN ECONOMIC BOOM IN THE FORESEEABLE FUTURE. More specifically, 1983-1986 will certainly be better than this year or last, but the growth will be mild. The long-term forecast here shows growth averaging about 3 per cent in each of the next three years. That is LESS THAN ONE-HALF of what has been considered the average annual rate in recoveries since WWII. There is no way to call that a boom. Growth in the three per cent range is not enough to significantly alter the unemployment rate. On the other hand, it will keep the inflation rate at more reasonable levels.

As to the international scene, Reagan and this country can be given credit for hepling lead some slow recovery in the next few years in the developed nations.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes took place.

1. In 1986, all U.S. demand for oil should be met. In 1983, it is expected the weighted price of oil will be $34 per barrel; in 1984 it will go up to $37 per barrel; in 1985, to $40 per barrel, and in 1986, to $42 per barrel.

2. It is expected that the Mid-east crisis will continue throughout this year and more normal economic conditions including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In the second half of 1982 some relaxation, and in 1983 tightening is expected.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984, and U.S. record crops in 1984-86.

7. Average rates of growth in 1982-1986 in the major industrial countries: West Germany 3.4%, Japan 3.6%, Italy 2.4%, Great Britain 2.1%, France 2.8%.

8. No drastic changes in international relationships are assumed.

The September 1982 KEDI forecast is highlighted in Table 1.0 on page 4.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

| Indicator | Unit | 1981 | 1982 | 1985 | 1986 |
|---|---|---|---|---|---|
| Gross national product | bil. 1972$ | 1502.6 | 1479.9 | 1646.1 | 1713.6 |
| Index of industrial production | 1967= 100 | 151.0 | 140.2 | 169.6 | 176.9 |
| Capacity utilization | % | 78.5 | 70.7 | 78.4 | 79.2 |
| Unemployment rate | % | 7.6 | 9.5 | 7.7 | 7.4 |
| Private housing starts | % | 1.084 | .997 | 1.556 | 1.629 |
| Car sales | mil. | 8.6 | 7.6 | 8.7 | 8.8 |
| Implicit GNP price deflator | 1972= 100 | 195.5 | 207.7 | 257.2 | 276.7 |
| Consumer price index | 1967= 100 | 272.4 | 290.0 | 362.3 | 392.0 |
| Producer price index* | 1967= 100 | 269.7 | 280.5 | 364.8 | 396.7 |
| Federal deficit | bil.$ | -60.0 | -122.9 | -67.4 | -56.3 |
| Personal income | bil.$ | 2415.8 | 2553.0 | 3269.0 | 3589.4 |
| Prime rate | % | 18.87 | 14.97 | 12.72 | 13.36 |
| Mortgage rate | % | 16.52 | 16.27 | 13.02 | 13.66 |
| Currency plus demand deposits | bil.$ | 427.1 | 454.0 | 544.5 | 583.2 |
| Commercial and industrial loans | bil.$ | 360.6 | 396.9 | 487.5 | 527.4 |

* Finished goods

## 1.10 REAL GROWTH

(Table 1.10 on page 6)

Development have been confirming the prediction maintained here that the middle two quarters of this year would be fairly flat. The last part of this year is still seen as showing a gain with a bit of momentum gained in 1983.

The economy is still at the bottom and the next few years will show growth, but they will be far from "coming up roses". After the small indications of rebound in July, the August data are lousy. August is always a low month. Preliminary data for September do not show any general improvement. October will be a bit better.

1. Machine-tool orders dropped 22 per cent in August. Some in that industry do not see any upturn for them until well into the next year.

2. Industry output edged down by 0.5 per cent, seasonally adjusted. That is the 11th drop since July of 1981. It does indicate that unemployment will remain high for a while as many economists agree.

3. The cuts in taxes and the increases in social security payments have not led to rise in consumer spending so far. People have been holding on to the extra money. Later this year, they will spend some of it. Retailer reported sales were weak in August and in September.

4. The Index of Leading Indicators was down by 0.9 per cent in August. It had been gaining in the prior four months. The decline was mostly due to the edging down of the average workweek and the gain in new claims for unemployment benefits. Five indicators did rise but not

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product,1972$ | bil. 1972 $ | 1502.6 | 1470.7 | 1478.4 | 1481.9 | 1488.5 | 1479.9 | -1.5 |
| Index of industrial product. | 1967=100 | 151.0 | 141.6 | 139.2 | 138.2 | 142.7 | 140.2 | -7.2 |
| Unemployment rate | % | 7.6 | 8.8 | 9.5 | 9.9 | 9.8 | 9.5 | 24.4 |
| Capacity utilization rate | % | 78.5 | 71.6 | 70.3 | 70.1 | 70.8 | 70.7 | -10.0 |
| Private housing starts | mil. units | 1.084 | .919 | .958 | 1.052 | 1.057 | .997 | =8.0 |
| Car sales | mil. units | 8.6 | 8.3 | 7.5 | 7.1 | 7.4 | 7.6 | -11.6 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product,1972$ | bil. 1972 $ | 1479.9 | 1504.0 | 1517.1 | 1530.7 | 1548.3 | 1525.0 | 3.0 |
| Index of industrial product. | 1967=100 | 140.2 | 144.3 | 147.7 | 149.6 | 153.3 | 148.7 | 6.1 |
| Unemployment rate | % | 9.5 | 9.3 | 8.8 | 8.2 | 7.9 | 8.6 | -9.7 |
| Capacity utilization rate | % | 70.7 | 71.4 | 72.3 | 74.0 | 74.9 | 73.2 | 3.5 |
| Private housing starts | mil. units | .977 | 1.086 | 1.392 | 1.427 | 1.419 | 1.331 | 36.2 |
| Car sales | mil. units | 7.6 | 7.9 | 7.7 | 7.9 | 8.0 | 7.9 | 3.9 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product,1972$ | bil. 1972 $ | 1525.0 | 1560.2 | 1578.4 | 1594.1 | 1610.5 | 1585.8 | 4.0 |
| Index of industrial product. | 1967=100 | 148.7 | 156.2 | 158.9 | 162.3 | 165.7 | 160.8 | 8.1 |
| Unemployment rate | % | 8.6 | 7.8 | 7.6 | 7.3 | 7.2 | 7.5 | -12.1 |
| Capacity utilization rate | % | 73.2 | 75.6 | 77.1 | 77.9 | 78.8 | 77.4 | 5.7 |
| Private housing starts | mil. units | 1.331 | 1.401 | 1.436 | 1.512 | 1.510 | 1.465 | 10.1 |
| Car sales | mil. units | 7.9 | 8.3 | 8.4 | 8.5 | 8.6 | 8.5 | 7.6 |

*Historical data (1) % change over previous year

REAL GROWTH

enough to balance the declines.

5. Auto production was cut again.

6. Steel production gained 1.2 per cent toward the end of September. Still output in the third week of September was over 45 per cent lower than it was a year ago. The outlook, as seen by the Commerce Department is for sluggish growth with gains of 1-1.5 per cent in the rest of the 1980's. KEDI agrees.

7. Home repair spending often goes up when the housing industry is in a slump, but not this time. Rising competition has meant lower prices for remodeling. So far this year such repairs and remodeling spending declined from 1981 levels.

3. Coal production is up, but much of it is going to inventories. Demand is weak.

9. The forest-products industry does not see a quick end to the slump. Slow improvement in 1983 is seen.

10. The plentiful grain harvest is causing bulging storage facilities as prices are poor. There is not much relief in sight.

Overall, the news is negative, but the increments are small. Slight gains will begin to outnumber decreases before the year is out.

## 1.20 PRICES

(Table 1.20 on page 9)

The forecast for consumer prices has been somewhat lowered. The CPI is now seen as gaining 6.5 per cent this year instead of the 6.8 per cent forecast in the August issue.

The change is due to KEDI revising downwards the price projections of some food items (mainly cereals, bakery and other non-meat items) and lowering the rates of increases projected for energy items. The price of food is now seen as going up just 3 per cent instead of 4 per cent, and energy items are now forecast as rising 6 per cent instead of the previously projected 7 per cent. The main item pushing the CPI up are medical costs which are expected to increase 10 per cent this year. In 1983 and 1984 the outlook is for CPI to gain 7.1 and 7.8 per cent, respectively. (Who will miss the double digit rate increases in our recent past?)

As to producer prices, the August gain of 0.6 per cent is viewed as temporary. Important for future prices, is the fact that the index for intermediate goods fell an adjusted 0.1 per cent in August. Also, the index for crude goods was down an adjusted 0.6 per cent in that month. Declines in prices for intermediate and crude goods indicate that the cost-push pressures on prices of final industrial goods and consumer goods will be weak in future months. In KEDI's projection, more significant price increases of producer goods are expected not earlier than in 1984.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Consumer price index,n.s.a. | 1967=100 | 272.4 | 283.6 | 287.4 | 292.8 | 296.1 | 290.0 | 6.5 |
| Producer price index,n.s.a.** | 1967=100 | 269.7 | 277.2 | 278.2 | 281.1 | 285.8 | 280.6 | 4.0 |
| Implicit GNP price deflator | 1972=100 | 195.5 | 203.6 | 206.0 | 208.5 | 212.6 | 207.7 | 6.2 |
| Gross national product | bil.$ | 2937.7 | 2995.5 | 3045.2 | 3089.9 | 3164.4 | 3073.8 | 4.6 |
| Personal consump.expend. | bil.$ | 1843.2 | 1919.4 | 1947.8 | 1984.2 | 2012.4 | 1966.7 | 6.7 |
| Gross private dom.investment | bil.$ | 471.5 | 414.8 | 431.5 | 450.3 | 467.3 | 441.0 | 6.5 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Consumer price index,n.s.a. | 1967=100 | 290.0 | 303.0 | 307.8 | 313.1 | 318.5 | 310.6 | 7.1 |
| Producer price index,n.s.a.** | 1967=100 | 280.6 | 291.2 | 298.9 | 305.9 | 311.6 | 301.9 | 7.6 |
| Implicit GNP price deflator | 1972=100 | 207.7 | 215.8 | 219.4 | 222.6 | 225.7 | 220.9 | 6.4 |
| Gross national product | bil$ | 3073.8 | 3245.6 | 3328.5 | 3405.8 | 3494.5 | 3368.6 | 9.6 |
| Personal consump.expend. | bil.$ | 1966.7 | 2055.4 | 2113.8 | 2191.6 | 2250.9 | 2156.4 | 9.6 |
| Gross private dom.investment | bil.$ | 441.0 | 480.5 | 492.6 | 503.5 | 514.7 | 497.8 | 12.9 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Consumer price index,n.s.a. | 1967=100 | 310.6 | 323.8 | 330.4 | 339.2 | 345.7 | 334.8 | 7.8 |
| Producer price index,n.s.a.** | 1967=100 | 301.9 | 315.2 | 324.6 | 334.5 | 346.7 | 330.3 | 9.4 |
| Implicit GNP price deflator | 1972=100 | 220.9 | 230.4 | 235.2 | 240.1 | 245.8 | 237.9 | 7.7 |
| Gross national product | bil.$ | 3368.6 | 3594.7 | 3712.4 | 3827.4 | 3958.6 | 3773.3 | 12.1 |
| Personal consump.expend. | bil.$ | 2156.4 | 2322.0 | 2356.7 | 2412.6 | 2463.1 | 2418.6 | 12.2 |
| Gross private dom.investment | bil.$ | 497.8 | 520.6 | 543.4 | 552.8 | 567.4 | 546.1 | 9.7 |

*Historical data (1) % change over previous year **Finished goods

## 1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

The forecast is essentially unchanged for this year and slightly increased for 1983 and 1984 unemployment. KEDI does not see as likely that the unemployment rate will exceed 10 per cent for a longer time. The long-term outlook is presented:

Unemployment Rates

(Year averages)

| | |
|---|---|
| 1982 | 9.5 % |
| 1983 | 8.6 % |
| 1984 | 7.5 % |
| 1985 | 7.7 % |
| 1986 | 7.4 % |

In 1983, joblessness will remain high in the following areas: automobiles, steel, lumber, forest products, construction, rubber, and plastics.

There will be improvements in mining, electrical machinery, chemicals, farm equipment, primary metals, paper and products, textiles, apparel, and transportation.

The job scene will be fairly good in oil, defense, food, wholesale and retail trade, and nonelectrical machinery.

In 1984, the job outlook will be more encouraging. Improvements are projected for rubber, plastics, construction, and forest products. Steel, automobiles, and primary metals will still not be out of woods.

The job picture for 1985 will remain essentially unchanged when compared with the year 1984. Some improvements are expected for steel, primary metals, automobiles and related industries. The year 1986 should bring a general increase in employment.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Population | mil. | 225.9 | 228.0 | 229.2 | 230.4 | 231.4 | 229.6 | 1.6 |
| Civilian labor force | mil. | 108.7 | 109.1 | 110.2 | 110.9 | 111.8 | 110.5 | 1.7 |
| Employment | mil. | 100.5 | 99.5 | 99.8 | 99.9 | 100.8 | 100.0 | -.5 |
| Agriculture | mil. | 3.4 | 3.4 | 3.4 | 3.3 | 3.3 | 3.4 | .0 |
| Non agricult. | mil. | 97.1 | 96.1 | 96.4 | 96.6 | 97.5 | 96.6 | -.5 |
| Unemployment rate | % | 7.62 | 8.77 | 9.46 | 9.92 | 9.78 | 9.48 | 24.4 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Population | mil. | 229.6 | 231.5 | 232.2 | 232.9 | 233.4 | 232.5 | 1.3 |
| Civilian labor force | mil. | 110.5 | 112.6 | 113.8 | 114.9 | 115.8 | 114.3 | 3.3 |
| Employment | mil. | 100.0 | 102.1 | 103.8 | 105.4 | 106.7 | 104.5 | 4.5 |
| Agriculture | mil. | 3.4 | 3.3 | 3.4 | 3.3 | 3.4 | 3.4 | .0 |
| Non agricult. | mil. | 96.6 | 98.8 | 100.4 | 102.1 | 103.3 | 101.1 | 4.7 |
| Unemployment rate | % | 9.48 | 9.29 | 8.79 | 8.24 | 7.90 | 8.56 | -9.7 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Population | mil. | 232.5 | 234.5 | 235.2 | 236.0 | 236.9 | 235.7 | 1.4 |
| Civilian labor force | mil. | 114.3 | 117.0 | 117.9 | 118.8 | 120.1 | 118.5 | 3.7 |
| Employment | mil. | 104.5 | 107.9 | 109.0 | 110.2 | 111.4 | 109.6 | 4.6 |
| Agriculture | mil. | 3.4 | 3.3 | 3.3 | 3.4 | 3.4 | 3.4 | .0 |
| Non agricult. | mil. | 101.1 | 104.6 | 105.7 | 106.8 | 108.0 | 106.2 | 4.7 |
| Unemployment rate | % | 8.56 | 7.78 | 7.55 | 7.28 | 7.22 | 7.46 | -12.9 |

*Historical data (1) % change over previous year

## 1.41 HOUSING

(Table 1.41 on page 13)

The forecast is unchanged. The August data confirm that the July increase was only temporary. Housing starts were down 16.2 per cent in August to an adjusted annual rate of just over one million. The typical rate of about twice that which held in housing boom years is not seen as making a comeback any more than nickel phone calls and wood buckets.

KEDI maintains its position that multi-family housing will expand-- even if individual rooms are smaller-- and single family homes will gain slowly.

Year-to-year Percentage Change

| | Single-family starts | Multi family starts |
|---|---|---|
| 1982/81 | -14.2 | 3.2 |
| 1983/82 | 29.7 | 39.6 |
| 1984/83 | 7.8 | 13.2 |
| 1985/84 | 6.5 | 7.9 |
| 1986/85 | 7.2 | 8.6 |

This Institute is not as optimistic as Mr. Sumichrast of the National Association of Home Builders. He looks to an upturn later this fall. If there is one, it will be quite small. One of the reasons is that building permits dropped in August by 16.6 per cent. Also, KEDI calculations show that unless the mortgage rate goes to the 11-12 per cent range, no significant rebound will take place. Such rates are not seen over the next few years. Sales of new homes were off by 4.9 per cent in July and reached the third lowest rate in two decades. The forecast shows no significant improvement in the foreseeable future.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Single-family housing starts | mil. | .706 | .586 | .603 | .614 | .620 | .606 | -14.2 |
| Multifamily housing starts | mil. | .379 | .333 | .355 | .438 | .437 | .391 | 3.2 |
| Mobile home shipments | mil. | .241 | .238 | .246 | .256 | .258 | .250 | 3.7 |
| Permits authorized | mil. | .969 | .832 | .924 | .951 | 1.985 | .923 | -4.7 |
| 1-family unit** price, new | tho.$ | 83.1 | 80.7 | 86.2 | 90.6 | 94.9 | 88.1 | 6.0 |
| 1-family unit** price,existing | tho.$ | 78.0 | 79.2 | 80.4 | 82.7 | 85.6 | 81.7 | 4.7 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Single-family housing starts | mil. | .606 | .654 | .831 | .826 | .831 | .786 | 29.7 |
| Multifamily housing starts | mil. | .391 | .432 | 561 | .601 | .588 | .546 | 39.6 |
| Mobile home shipments | mil. | .250 | .284 | .300 | .312 | .336 | .308 | 23.2 |
| Permits authorized | mil. | .923 | 1.002 | 1.178 | 1.312 | 1.306 | 1.200 | 30.0 |
| 1-family unit** price, new | mil. | 88.1 | 97.9 | 100.2 | 101.9 | 103.8 | 101.0 | 14.6 |
| 1-family unit** price,existing | tho.$ | 81.7 | 88.2 | 91.0 | 94.0 | 96.8 | 92.5 | 13.2 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Single-family housing starts | mil. | .786 | .807 | .828 | .869 | .882 | .847 | 7.8 |
| Multifamily housing starts | mil. | .546 | .594 | .608 | .643 | .628 | .618 | 13.2 |
| Mobile home shipments | mil. | .308 | .301 | .326 | .347 | .306 | .320 | 3.9 |
| Permits authorized | mil. | 1.200 | 1.289 | 1.402 | 1.475 | 1.453 | 1.407 | 17.3 |
| 1-family unit** price, new | tho.$ | 101.0 | 106.4 | 109.0 | 112.2 | 115.1 | 110.7 | 9.6 |
| 1-family unit** price,existing | tho.$ | 92.5 | 98.9 | 102.3 | 105.1 | 107.1 | 103.4 | 11.8 |

*Historical data (1) % change over previous year **Not seas. adjusted

## 1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast remains quite gloomy. Car sales are seen here as very slowly moving ahead over the next several years but remaining at historically low levels.

Automotive News World Outlook lowered its forecast in late September for total car sales this year to 7.9 million from 8.4 million. Their 1983 forecast was reduced from 9.5 million to 9.2 million. KEDI has maintained its forecast for months. FINALLY, the top forecasting service for cars is coming close to KEDI's projection which is repeated here.

| | Car Sales (mil. units) |
|---|---|
| 1982 | 7.6 |
| 1983 | 7.9 |
| 1984 | 8.5 |

Recent data confirm KEDI's forecast for 1982.

1. Car sales in the first 10 days of September plunged 29 per cent.
2. The mid-September increase of 14.7 per cent is only temporary. Promotions to move out 1982 models have ended.
3. Inventories of unsold cars are hefty. The incentives did not clear the lots. Inventories were at an 18-year high.
4. Auto production was, again, cut in early September.
5. Ford cut production plans, again, for the fourth quarter.

## TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Passenger cars | | | | | | | | |
| Total sales | mil. | 8.6 | 8.3 | 7.5 | 7.1 | 7.4 | 7.6 | -11.6 |
| Domestic | mil. | 6.3 | 6.0 | 5.5 | 5.3 | 5.7 | 5.6 | -11.1 |
| Imported | mil. | 2.3 | 2.3 | 2.0 | 1.7 | 1.7 | 1.9 | -17.4 |
| Dealers inventories** | mil. | 1.5 | 1.1 | 1.2 | 1.6 | 1.7 | 1.4 | -6.7 |
| Factory shipments | mil. | 6.3 | 4.1 | 4.9 | 4.7 | 5.3 | 4.8 | -13.7 |
| Light-duty truck sales | mil. | 1.6 | 1.9 | 1.7 | 1.6 | 1.8 | 1.8 | 12.5 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Passenger cars | | | | | | | | |
| Total sales | mil. | 7.6 | 7.9 | 7.7 | 7.9 | 8.0 | 7.9 | 3.9 |
| Domestic | mil. | 5.6 | 6.1 | 5.9 | 6.1 | 6.3 | 6.1 | 8.9 |
| Imported | mil. | 1.9 | 1.8 | 1.8 | 1.8 | 1.7 | 1.8 | -5.3 |
| Dealers inventories** | mil. | 1.4 | 1.7 | 1.5 | 1.4 | 1.5 | 1.5 | 7.1 |
| Factory shipments** | mil. | 4.8 | 5.6 | 5.7 | 5.4 | 6.1 | 5.7 | 18.8 |
| Light-duty truck sales | mil. | 1.8 | 1.7 | 1.8 | 1.9 | 1.9 | 1.8 | .0 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Passenger cars | | | | | | | | |
| Total sales | mil. | 7.9 | 8.3 | 8.4 | 8.5 | 8.6 | 8.5 | 7.6 |
| Domestic | mil. | 6.1 | 6.6 | 6.6 | 6.8 | 7.0 | 6.8 | 11.5 |
| Imported | mil. | 1.8 | 1.7 | 1.8 | 1.7 | 1.6 | 1.7 | -5.6 |
| Dealers inventories** | mil. | 1.5 | 1.5 | 1.5 | 1.4 | 1.5 | 1.5 | .0 |
| Factory shipments** | mil. | 5.7 | 6.4 | 6.5 | 6.4 | 6.7 | 6.5 | 14.0 |
| Light-duty truck sales | mil. | 1.8 | 2.0 | 2.0 | 2.1 | 2.2 | 2.1 | 16.7 |

*Historical data (1) % change over previous year **Seas. not adjusted

## 1.50 BUDGETS

(Table 1.50 on page 17)

The forecast here is only slightly changed.In the last issue, estimates for the size of the Federal deficit for fiscal 1983-85 were reduced about 5-10 per cent from the August estimates. In this October issue, the projection is increased so the red ink totals now appear to be in the area of $124 billion for the fiscal 1983 year, $110 billion for '84, $80 billion for '85, and $62 billion for 1986.

Recent predictions of the Congressional Budget Office are viewed here as overly pessimistic. They see the 1984 and '85 deficits in the $150 billion range--unless there are more tax increases and more cuts in spending.

KEDI's calculations of the impact of these deficits on interest rates show that they are not of great consequence. As has been stated here for several months, there are surpluses in the Households, Banking, and State and Local Governments sectors that will make up for the shortage of funds at the federal level without putting great pressure on interest rates.

The Treasury's latest budget report shows that the deficit for the first 11 months of the fiscal year 1982 totaled $108.95 billion. Indications are that September will end with a slight deficit. That will bring the 1982 fiscal year deficit close to $110 billion; the figure advocated by KEDI for months.

The forecast for state and local budgets has not been changed.

## TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 1982 2 | 1982 3 | 1982 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Federal govt.: | | | | | | | | |
| Income taxes | bil.$ | 298.1 | 299.9 | 305.8 | 279.8 | 284.3 | 292.5 | -1.9 |
| Corporate prof. tax accruals | bil.$ | 67.3 | 45.6 | 45.2 | 46.0 | 49.2 | 46.5 | -30.9 |
| Surplus/deficit | bil.$ | 60.0 | -119.3 | -119.6 | -134.6 | -118.1 | -122.9 | 104.8 |
| State and local governments: | | | | | | | | |
| Income taxes | bil.$ | 88.6 | 93.6 | 95.4 | 97.9 | 100.4 | 96.8 | 9.3 |
| Corporate prof. tax accruals | bil.$ | 10.1 | 10.1 | 10.2 | 10.3 | 10.8 | 10.4 | 3.0 |
| Surplus/deficit | bil.$ | 31.7 | 27.7 | 32.4 | 33.1 | 33.1 | 31.7 | .0 |

| Indicator | Unit | 1982 | 1983 1 | 1983 2 | 1983 3 | 1983 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Federal govt.: | | | | | | | | |
| Income taxes | bil.$ | 292.5 | 304.1 | 307.3 | 282.8 | 294.6 | 297.2 | 1.6 |
| Corporate prof. tax accruals | bil.$ | 46.5 | 55.8 | 62.6 | 68.8 | 73.2 | 65.1 | 40.0 |
| Surplus/deficit | bil.$ | -122.9 | -103.1 | -94.0 | -120.5 | -101.6 | -104.8 | -14.7 |
| State and local governments: | | | | | | | | |
| Income taxes | bil.$ | 96.8 | 104.9 | 109.1 | 110.2 | 111.3 | 108.9 | 12.5 |
| Corporate prof. tax accruals | bil.$ | 10.4 | 12.2 | 13.3 | 13.8 | 14.6 | 13.5 | 29.8 |
| Surplus/deficit | bil.$ | 31.7 | 34.2 | 35.1 | 37.0 | 36.1 | 35.6 | 12.3 |

| Indicator | Unit | 1983 | 1984 1 | 1984 2 | 1984 3 | 1984 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Federal govt.: | | | | | | | | |
| Income taxes | bil.$ | 297.2 | 308.9 | 320.8 | 335.6 | 353.4 | 329.7 | 10.9 |
| Corporate prof. tax accruals | bil.$ | 65.1 | 76.6 | 81.0 | 86.4 | 90.3 | 83.6 | 28.4 |
| Surplus/deficit | bil.$ | -104.8 | -96.4 | -92.3 | -83.1 | -78.5 | -87.6 | -16.4 |
| State and local governments: | | | | | | | | |
| Income taxes | bil.$ | 108.9 | 114.1 | 116.2 | 121.0 | 124.1 | 118.9 | 9.2 |
| Corporate prof. tax accruals | bil.$ | 13.5 | 15.2 | 15.6 | 16.1 | 17.0 | 16.0 | 18.5 |
| Surplus/deficit | bil.$ | 35.6 | 35.9 | 36.2 | 37.1 | 38.3 | 36.9 | 3.7 |

*Historical data (1) % change over previous year

## 1.60 INCOME

(Table 1.60 on page 19)

The forecast is not changed. Personal income did inch ahead a modicum. In August it just barely made a gain of 0.3 per cent. Putting that in perspective, at least it did not drop. KEDI's forecast for the rest of the year and for 1983 shows modest gains only. More significant increases in personal income are expected not earlier than in 1984.

However, it is nto a good sign that factory wages declined as did weekly earnings and average hourly earnings. Weekly factory pay in July went down to $322.60 from an average in the prior month of $334.05. Hourly pay in August was off an average of four cents to $8.51 an hour. Indications are that average weekly factory wages will continue declining in coming months and will level off at the end of this year. The data on wages certainly do not point to any quick improvement in the economy. That is in line with the general forecast maintained at this Institute. Robust recovery is not just around the corner. Hesitant steps that will very slowly gain in steadiness and some slightly quickened pace (3 per cent a year is slight) will begin to be noticeable in the next few months.

Forecast of corporate profits remains essentially unchanged when compared with KEDI's previous forecast.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Personal income | bil.$ | 2415.8 | 2510.5 | 2552.7 | 2563.4 | 2585.3 | 2553.0 | 5.7 |
| Personal disposable income | bil.$ | 2029.1 | 2117.1 | 2151.5 | 2185.7 | 2200.5 | 2163.7 | 6.6 |
| Compensation of employees | bil.$ | 1767.6 | 1819.9 | 1850.7 | 1868.5 | 1921.4 | 1865.1 | 5.5 |
| Corporate after tax profits | bil.$ | 150.9 | 115.9 | 116.3 | 120.1 | 128.6 | 120.2 | -20.3 |
| Personal saving | bil.$ | 130.2 | 139.1 | 144.3 | 160.0 | 154.8 | 149.6 | 14.9 |
| Average weekly earnings | $ | 316.8 | 320.5 | 328.1 | 330.3 | 337.2 | 329.0 | 4.0 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Personal income | bil.$ | 2553.0 | 2618.9 | 2678.5 | 2756.1 | 2819.4 | 2718.2 | 6.5 |
| Personal disposable income | bil.$ | 2163.7 | 2209.9 | 2262.1 | 2363.1 | 2413.5 | 2287.2 | 5.7 |
| Compensation of employees | bil.$ | 1865.1 | 1942.3 | 1986.3 | 2013.5 | 2049.7 | 1998.0 | 7.1 |
| Corporate after tax profits | bil.$ | 120.2 | 134.3 | 138.8 | 146.7 | 154.3 | 143.5 | 19.4 |
| Personal saving | bil.$ | 149.6 | 151.5 | 145.4 | 163.2 | 157.8 | 154.5 | 3.3 |
| Average weekly earnings | $ | 329.0 | 340.5 | 351.4 | 356.2 | 361.3 | 352.4 | 7.1 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Personal income | bil.$ | 2718.2 | 2858.6 | 2961.4 | 3036.7 | 3128.5 | 2996.3 | 10.2 |
| Personal disposable income | bil.$ | 2287.2 | 2435.6 | 2524.4 | 2580.1 | 2651.0 | 2457.8 | 11.4 |
| Compensation of employees | bil.$ | 1998.0 | 2087.2 | 2157.1 | 2232.4 | 2284.6 | 2190.3 | 9.6 |
| Corporate after tax profits | bil.$ | 143.5 | 157.2 | 160.4 | 164.6 | 168.8 | 162.8 | 13.4 |
| Personal saving | bil.$ | 154.5 | 156.0 | 161.2 | 163.2 | 164.3 | 161.2 | 4.3 |
| Average weekly earnings | $ | 352.4 | 370.2 | 375.6 | 380.2 | 383.4 | 377.4 | 7.1 |

*Historical data (1) % change over previous year

## 1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

KEDI has forecast since 1981 that the Fed would relax policies in the latter part of 1982. Developments in the last three months are confirming that forecast.

It has been maintained here that the Federal Reserve powers would put up with money growth above target levels. They have been doing that. The growth in M1 has been exceeding the target range of 2.5 to 5.5 per cent. A tightening is not expected before 1983.

The projection of commercial and industrial loans has been increased somewhat. This is mainly due to the change in reporting data for that type of loans. A strong demand for commercial and industrial loans is expected to prevail in 1983-84 with a slowdown in 1985 and resumption in 1986.

Consumer installment credit is still seen as going up by about 5 per cent during this year. In the next two years the rate of gain will quicken. KEDI anticipates that consumers will keep their generally cautious attitude for this year. Most will not be purchasing large items such as cars and appliances. They have tended to keep their savings because of high interest rates and their uncertainty about the economy. Next year, their confidence will gain.

Forecast data for mortgages have been lowered somewhat for Savings & Loan Associations and increased for Commercial Banks. It is anticipated that in 1983-1985 the commercial banking's share on mortgage business will grow more rapidly than that of savings and loan associations'.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Currency and demand deposits, M1 | bil.$ | 427.1 | 448.0 | 451.7 | 454.6 | 461.7 | 454.0 | 6.3 |
| Time deposits, adjusted, M2 | bil.$ | 1723.4 | 1851.1 | 1895.3 | 1912.6 | 1932.4 | 1897.9 | 10.1 |
| Consumer instal. credit | bil.$ | 333.4 | 327.1 | 331.9 | 340.7 | 348.7 | 348.7 | 4.6 |
| Commerc.& indus. loans at banks | bil.$ | 360.1 | 369.0 | 382.7 | 385.7 | 396.9 | 396.9 | 10.2 |
| Large denomination time dep. | bil.$ | 295.4 | 307.7 | 322.2 | 328.5 | 330.6 | 322.3 | 9.1 |
| Mortgages at S & L Assns. | bil.$ | 518.4 | 515.9 | 512.4 | 516.5 | 520.1 | 520.1 | .3 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Currency and demand deposits, M1 | bil.$ | 454.0 | 465.7 | 472.3 | 480.5 | 490.6 | 477.3 | 5.1 |
| Time deposits, adjusted, M2 | bil.$ | 1897.9 | 1949.6 | 1992.4 | 2027.5 | 2074.8 | 2011.1 | 6.0 |
| Consumer instal. credit | bil.$ | 348.7 | 352.6 | 357.3 | 365.6 | 371.2 | 371.2 | 6.5 |
| Commerc.& indus. loans at banks | bil.$ | 396.9 | 400.1 | 406.2 | 415.3 | 423.9 | 423.9 | 6.8 |
| Large denomination time dep. | bil.$ | 322.3 | 334.5 | 337.2 | 342.4 | 347.1 | 340.2 | 5.6 |
| Mortgages at S & L Assns. | bil.$ | 520.1 | 527.8 | 532.9 | 540.7 | 543.6 | 543.6 | 4.5 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Currency and demand deposits, M1 | bil.$ | 477.3 | 494.8 | 503.1 | 514.0 | 525.7 | 509.4 | 6.7 |
| Time deposits, adjusted, M2 | bil.$ | 2011.1 | 2099.4 | 2152.6 | 2210.7 | 2265.6 | 2182.1 | 8.5 |
| Consumer instal. credit | bil.$ | 371.2 | 380.9 | 389.4 | 399.2 | 409.3 | 409.3 | 10.3 |
| Commerc.& indus. loans at banks | bil.$ | 423.9 | 429.5 | 440.7 | 446.1 | 454.3 | 454.3 | 7.2 |
| Large denomination time dep. | bil.$ | 340.2 | 352.6 | 361.4 | 370.5 | 380.2 | 366.2 | 7.6 |
| Mortgages at S & L Assns. | bil.$ | 543.6 | 551.8 | 560.7 | 569.4 | 578.5 | 578.5 | 7.9 |

*Historical data (1) % change over previous year

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

The forecast is not altered. The view of this Institute that has existed since last year is being confirmed. Namely, interest rates have been declining lately. They will do so during the rest of the year but in smaller increments. Rates will stabilize in 1983 and slightly increase in the second half of 1984.

KEDI expects the following:

1. The yield on 3mo Treasury bills will be around 8 per cent for the rest of this year, 9-10 per ceht in the first half of 1983 and above 10 per cent in the latter part of that year.
2. The prime rate is seen here as declining to the 13 per cent range at the end of the year and edge down a bit more until the second quarter of 1983. After that, it will go up again.
3. Mortgage rates will move down during the rest of this year and in 1983. At the end of 1983, a conventional mortgage rate of close to 13 per cent is forecast.
4. Aaa corporate bonds are seen as having slightly declining rates through the end of 1983 when the rate KEDI anticipates is about 11-12 per cent.
5. Long-term U.S. Government bonds are expected to remain firm with the yield hoovering around 13 per cent through next year.

The stock market forecast remains unchanged with no significant gains or losses. Through 1983, the Dow Jones is seen as in the 900-950 range and the Standard & Poor's in the 120-125 area.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

| Indicator | Unit | 1981* | 1982 1 | 2 | 3 | 4 | 1982 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Treasury bills (3 mo) yield | % | 14.03 | 12.81 | 12.42 | 10.02 | 9.94 | 11.30 | -11.8 |
| Prime rate | % | 18.87 | 16.27 | 16.50 | 14.17 | 12.94 | 14.97 | -20.7 |
| Conventional mortgages rate | % | 16.52 | 17.10 | 16.63 | 16.04 | 15.32 | 16.27 | -1.5 |
| Aaa corporate bonds rate | % | 14.17 | 15.01 | 14.52 | 13.72 | 12.94 | 14.05 | -.8 |
| 20 years Govt. bonds yield | % | 13.72 | 14.27 | 13.74 | 13.14 | 13.26 | 13.60 | -.8 |
| Standard & Poor's 500 avg. | 1941-43=100 | 128.05 | 114.25 | 114.12 | 117.79 | 121.42 | 116.90 | -8.7 |

| Indicator | Unit | 1982 | 1983 1 | 2 | 3 | 4 | 1983 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Treasury bills (3 mo) yield | % | 11.30 | 9.89 | 10.09 | 10.71 | 11.43 | 10.53 | -6.8 |
| Prime rate | % | 14.97 | 12.04 | 11.87 | 12.14 | 12.62 | 12.17 | -18. |
| Conventional mortgages rate | % | 16.27 | 15.16 | 14.85 | 14.24 | 14.02 | 14.57 | -10. |
| Aaa corporate bonds rate | % | 14.05 | 12.63 | 12.03 | 11.87 | 11.76 | 12.07 | -14.1 |
| 20 years Govt. bonds yield | % | 13.60 | 13.59 | 13.52 | 13.19 | 13.07 | 13.34 | -1.9 |
| Standard & Poor's 500 avg. | 1941-43=100 | 116.90 | 123.31 | 123.87 | 121.54 | 122.43 | 122.79 | 5.0 |

| Indicator | Unit | 1983 | 1984 1 | 2 | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Treasury bills (3 mo) yield | % | 10.53 | 11.08 | 11.16 | 11.91 | 12.30 | 11.61 | 10.3 |
| Prime rate | % | 12.17 | 12.32 | 11.90 | 11.96 | 12.63 | 12.20 | .2 |
| Conventional mortgages rate | % | 14.57 | 13.84 | 13.50 | 13.01 | 13.36 | 13.43 | -7. |
| Aaa corporate bonds rate | % | 12.07 | 12.42 | 12.56 | 12.64 | 12.91 | 12.63 | 4.6 |
| 20 years Govt. bonds yield | % | 13.34 | 13.19 | 13.48 | 13.73 | 13.65 | 13.51 | 1.3 |
| Standard & Poor's 500 avg. | 1941-43=100 | 122.79 | 121.56 | 123.42 | 126.27 | 123.84 | 123.77 | .8 |

*Historical data (1) % change over previous year

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Nonresidential Investment in current dollars for the year 1981 (before the July 1981 revision) has been selected for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No.3, March 1982 (U.S.Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981). Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
(Nonresidential Investment, billions of current $)

Actual figure: 328.9

| Forecaster | Date of Forecast | Forecast | Page of Business Forecasts 1981 | % of Accuracy |
|---|---|---|---|---|
| Georgia State University | 11/80 | 295.3 | 23 | -10.2 |
| The First National Bank of Chicago | 11/8/80 | 279.0 | 24 | -15.1 |
| Manufacturers Hanover Trust | 11/12/80 | 275.0 | 25 | -16.4 |
| UCLA | 12/80 | 288.8 | 27 | -12.2 |
| Bankers Trust Company | 12/10/80 | 287.0 | 30 | -12.7 |
| Standard & Poor's Corporation | 12/11/80 | 293.0 | 31 | -10.9 |
| Data Resources, Inc. | 12/28/80 | 288.0 | 32 | -12.4 |
| KEDI | 12/31/80 | 328.5 | 33 | -.1 |
| Fidelity Bank | 12/31/80 | 295.1 | 34 | -10.2 |
| Morgan Guaranty | 1/6/81 | 310.4 | 35 | -5.6 |
| Chase Econometrics | 1/7/81 | 326.6 | 36 | .7 |
| Equitable Life Insurance | 1/9/81 | 313.4 | 37 | -4.7 |

## 4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

**Table 3.0 HISTORICAL DATA SOURCES**

| Table No. | Data Series | Source |
|---|---|---|
| 1.10 REAL GROWTH | Gross national product, 1972$ | SCB, Table 1.2 |
| | Index of industrial production | IIP, page 2 |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.20 PRICES AND NOMINAL GNP | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit GNP price deflator | SCB, Table 7.1 |
| | Gross national product | SCB, Table 1.1 |
| | Personal consumption expenditures | SCB, Table 1.1 |
| | Gross private domestic investment | SCB, Table 1.1 |
| 1.30 EMPLOYMENT AND LABOR | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employed | SCB, Blue pages |
| | -Agriculture | SCB, Blue pages |
| | -Non agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

| Table No. | Data Series | | Source |
|---|---|---|---|
| 1.41 HOUSING | Single-family housing starts | | SCB, Blue pages |
| | Multifamily housing starts | | SCB, Blue pages |
| | Mobile home shipments | | SCB, Blue pages |
| | Permits authorized | | SCB, Blue pages |
| | 1-family unit price, new | | FRB, Table 2.14 |
| | 1-family unit price, existing | | FRB, Table 2.14 |
| 1.42 AUTOMOBILES | Passenger cars: | Total sales | SCB, Blue pages |
| | | Domestic | SCB, Blue pages |
| | | Imported | SCB, Blue pages |
| | | Dealers inventories | SCB, Blue pages |
| | | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | | SCB, Blue pages |
| 1.50 FEDERAL AND STATE AND LOCAL BUDGETS | Federal govt.: | Income taxes | SCB, Table 3.2 |
| | | Corp.profit tax accr. | SCB, Table 3.2 |
| | | Surplus/deficit | SCB, Table 3.2 |
| | State and local governments: | Income taxes | SCB, Table 3.3 |
| | | Corp.profit tax accr. | SCB, Table 3.3 |
| | | Surplus/deficit | SCB, Table 3.3 |
| 1.60 INCOME | Personal income | | SCB, Table 2.1 |
| | Personal disposable income | | SCB, Table 2.1 |
| | Compensation of employees | | SCB, Table 1.11 |
| | Corporate after tax profits | | SCB, Table 1.11 |
| | Personal saving | | SCB, Table 2.1 |
| | Average weekly earnings | | SCB, Blue pages |
| 1.70 MONEY AND CREDIT | Currency and demand deposits, M1 | | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | | FRB, Table 1.21 |
| | Consumer installment credit | | FRB, Table 1.56 |
| | Commercial & industrial loans | | FRB, Table 1.23 |
| | Large denomination time deposits | | FRB, Table 1.21 |
| | Mortgages at S&L Associations | | FRB, Table 1.55 |
| 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES | Treasury bills (3 mo) yield | | FRB, Table 1.10 |
| | Prime rate | | FRB, Table 1.33 |
| | Conventional mortgages rate | | FRB, Table 1.10 |
| | Aaa corporate bonds rate | | FRB, Table 1.35 |
| | 20 years Government bonds yield | | FRB, Table 1.10 |
| | Standard & Poor's 500 average | | FRB, Table 1.36 |